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# ***JPRS Report***

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## **East Europe**

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# East Europe

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### Rakovski Legion Official Interviewed

92BA0054A Sofia 168 CHASA in Bulgarian 24 Sep 91  
p 18

[Interview with Lieutenant Colonel Pet'o Boyadzhiev, deputy chairman of the Rakovski Bulgarian Officer Legion, by Vasil Vasilev; place and date not given: "Dzhurov's Aides-de-Camp Are Still Teaching Morality and Loyalty to the Armed Forces"]

[Text] We have many intelligent, honest, and courageous officers. However, the generals are forming an alliance to wage a holy war against them, claims Lieutenant Colonel Pet'o Boyadzhiev, deputy chairman of the Rakovski Bulgarian Officers Legion.

Every couple of months, when stress develops in parliament, someone would float the rumor that a military coup is in the making. Thank God, for nearly two years since 10 November 1989, the Army has been showing envious peacefulness, particularly compared to our neighbors in the peninsula. Still, what is happening in the Bulgarian Army? This was the topic of a discussion with Lt. Col. Pet'o Boyadzhiev, deputy chairman of the Rakovski Bulgarian Legion, who looks fierce but is nevertheless a talkative and frank person.

[Vasilev] Actually, what are you fighting against?

[Boyadzhiev] In the spring of 1990, the idea of establishing an independent, nonparty, professional organization of officers spontaneously developed in various garrisons throughout the country. Tense about the political struggles and reciprocal suspicions, the officers wanted to concentrate on their basic obligation: to ensure the safety of the country.

The first officers clubs were banned by Dobri Dzhurov, the then minister of defense. By the end of June, however, the Legion was registered with the Khaskovo Okrug Court. On 9 and 10 November, it held its first national conference, which was honored by the presence of the president of the Republic.

There are currently about 12,000 active officers from the country's Armed Forces—that is, the Ministry of Defense, the Ministry of Internal Affairs, and the National Security Services—who are members of the Legion. They are rallied in almost 400 clubs, by unit or establishment. The clubs are independent and equal, dealing directly with the National Coordination Council. The federative principle prohibits the creation of vertical structures, which, if subject to ill will, could threaten civil peace.

Our immediate objective is the survival of the Bulgarian Officer Corps in our difficult present times. Until we reached the age of 45, we had no right to our own homes or our own opinions should those opinions happen to be different from those of our superiors. We had no right to

say "no!" if we happened to disagree with an oligophrenic person. We had no right to be nonparty people. The few who were not accepted in the BCP (about 15 percent of all officers) could not advance beyond the ranks of captain and company commander.

The system, burnished to perfection, zealously cut people down to their size and tolerated officers who were obedient, who lacked initiative, who were cowardly and subservient. They tolerated officers who, most frequently, were more stupid than their superiors so that they would not outshine the latter. The declining prestige of our profession is due both to inadequate wages (based on the time spent in the units) and the moral harassment within the Army and the Militia, as well as the already established unattractive image of the military: coarse, a limited uniformed supporter of the totalitarian regime.

We would like to eliminate this concept because, even during the darkest days of the Zhivkov-Dzhurov domination, some honest patriots and excellent soldiers were able to survive and grow. These are people ready to support democratic gains and to enhance the professionalism, social reputation, and moral features of the Bulgarian officer and to return to the Bulgarian Armed Forces a number of forgotten traditions of our ancestors.

We would like to borrow a few things from the old czarist officers, who were infamously expelled from the Army in 1945-49. With the exception of die-hard fascists and sadists, many of them were people of high general and professional standards, bilingual and loved by their soldiers. To them, the concepts of honor and conscience did not depend on instructions issued by the political department or the resolutions passed at the latest congress or plenum.

[Vasilev] What distinguishes the "Legionnaire," or what will distinguish him from the officer of socialist Bulgaria?

[Boyadzhiev] A considerable percentage of officers who are conscious and who think independently and critically and belong to the middle generation, age 30 to 40, ranking from senior lieutenant to lieutenant colonel, are members of the Legion. Equal members of the Legion are also generals, colonels, and lieutenants. They reject the rotten legacy left by the zealous lackeys of totalitarianism and the Army and Militia butchers such as D. Dzhurov and Velko Palin, on whose orders tens of dissident officers were dismissed, tried, and persecuted, even after leaving the Army.

For that reason, we cannot accept today to be commanded by Dzhurov's aides-de-camp, the sons of the nobility, corrupt and ignorant people, who plundered the Army for decades. Hastily "depoliticized," they continue to teach us morality and loyalty to kin and homeland. "I do not believe you, young bride, I do not believe you," is the folk saying.

[Vasilev] The Warsaw Pact has ended. Who is now threatening Bulgaria? Who is our ally? Can the Bulgarian Army protect our country?

[Boyadzhiev] Openly, no one threatens us. However, the Balkans are a restless area. Look at the seething situation in our neighbors. Are there guarantees that some internal conflict will not turn against our borders? After the war in the Persian Gulf, Turkey is and will become an even greater military power.

Today our first ally is Christian Greece. We deem it necessary to sign as soon as possible a treaty with Turkey and update our treaty with the USSR. The unrestrained attacks mounted against our recent supporters are proof of short memory and low morality.

The main guarantees for our security, however, will come from Europe, from the structures of the all-European security. Until then, we shall be relying on our Armed Forces and Militia and on the hand of God. Regrettably, today neither armaments nor structure, training or spirit of the Armed Forces are consistent with the requirements of modern warfare.

A few days ago, a conference of MVR [Ministry of Internal Affairs] clubs was held. The same conclusion was drawn there: The guarantees of internal security are crumbling, and excellent specialists are leaving. Such is the legacy we were left by those who most eagerly claimed to be the greatest patriots.

[Vasilev] We have gained possession of a xeroxed copy of "some considerations" expressed by General Todorov, the former deputy minister of defense, in which he advises Minister Mutafov to dismantle the Legion. Do you have the feeling that you have already lost your rank?

[Boyadzhiev] No. Frightened people are not members of the Legion. Colonel General Todorov, the recent deputy minister in charge of armaments and ordnance, nicknamed "Czar Todor," was the right hand of D. Dzhelev for some 20 years. He enjoyed total power in the defense industry and the MNO [Ministry of National Defense]. The Kladio Tank Fire Control System, which was unsuitable for our tanks and which cost \$300 million, and the purchases of obsolete T-62 tanks are merely two of his "brilliant" decisions that are weighing on his conscience. Instead of checking his mail more frequently for a summons by the prosecutor's office, the general is filling his time in retirement with writing treaties on how to destroy a legitimate organization of thousands of officers.

After failing to do anything worth remembering for the Bulgarian officers, in the course of 20 years (excluding his participation in Dzhelev's small traveling group), today the general is displaying a great deal of zeal. Both he and other Stalinists are yearning for the past and

would greatly want to bring it back. Simply look at the following sentence: "I am not familiar with the text of the document signed by the chief of the General Staff and the Legion and approved by you, concerning the basic concepts governing the interaction between the MNO and the Legion.... If we accept that the document you have approved is grounds for setting up within the Bulgarian National Army an organization (clubs) of the Legion, this means that it is being developed on the basis of your decision, and, consequently, once you have determined that its existence conflicts with the one-man command principle and is harming the combat capability of the troops and is required by the circumstances, you may rescind your decision and dismantle it." What brilliant style! Joseph Vissarionovich, Lavrentiy Pavlovich, Vishinskiy, and others trained good students.

Mr. Todorov is no longer in the Ministry of Defense. However, within it we have quite a number of opponents, such as Generals Panayotov, Zaprjanov, Grozdev, Sinapov, Iliev, and Mladenov. Last February, when the members of the Ministry of Defense Collegium were touring the country to explain the situation with housing, they were doing something else as well: They were trying to persuade the officers not to join the Legion but to join the assembly of officers, hastily created by ministerial order.

What I found strangest was General Mutafov's resolution: "To be discussed at a meeting of the Collegium. There are rational ideas we could implement." One of these rational ideas belonging to General Todorov is the following: "With the very attempt at a mass manifestation of the nature we described, although not involving many people, it should be annulled with a document approved by you, and all clubs of the Legion within the Bulgarian National Army should be disbanded." The resolution was submitted on 6 February, or one week after the joint document was signed.

We, naive as we were, thought that after the document was signed our misunderstanding with the Ministry of Defense would come to an end and we would be able to work jointly to clean the Augean stables of our poor Armed Forces.

Instead of putting an end to the arbitrary actions of commanders nicknamed by their subordinates "the Pasha," "Saddam," "the Boston Strangler," or "Urko," the generals are forming alliances in waging a holy war against the Legion. They continue to consider themselves not leaders but owners of the Army. Until recently, this was indeed the case. They get mad even when asked why some of them occupy two or even three apartments belonging to the Military Housing Fund: "One-man command is being violated! The foundations of the Army are being destroyed!" It is as though one year ago, when the Legion did not exist, all problems had been resolved.

I would like you to understand me correctly. We are not against all generals. I know many worthy people of general rank whom I and my comrades would follow into the fire. These are people whose call is to lead the Army and make the military reform that is so greatly necessary. However, they are being hindered by the members of the *nomenklatura*, who are hastening to build their cottages, help one more relative or friend, or acquire yet another pension in the guise of salary.

[Vasilev] Are you not rather bitter?

[Boyadzhiev] In *Gramada* [Cairn], Vazov wrote: "He who suffers a lot avenges a lot." We have been pushed around too long. Today, gathered in the first voluntary

and independent organization of officers, we would like to rescue our declining profession, assist in a peaceful transition to a democratic society, and secure Bulgaria's territorial integrity.

Together with the privates and the sergeants, we would be the first to face the enemy if war were to break out. The officers are the bearers of a military tradition and of the intellect in the Army and the Militia. Let us not forget that Bulgaria has lost wars not through the fault of its Army but through that of the czar and the politicians. If it nonetheless were able to survive, it was thanks to its Armed Forces, who were ready for sacrifice, who were small in number but skillful and of strong spirit, led by intelligent, decisive, and daring commanders.

**Costs of Independent Slovakia Examined**

92CH0057A Prague HOSPODARSKE NOVINY  
in Slovak 30 Sep 91 p 9

[Article by Jozef Baksay, Minister of Foreign Trade: "Numbers To Think About; How Much the Cost of an Independent State?"]

[Text] It grieves me personally very much that in the effort to save our common state I must resort to economic argument. I have always believed that our republic was born as a result of a voluntary decision of Czechs and Slovaks. Indeed, in the 73 years of its existence to date a great many citizens of both our nations as well as members of minority nationalities shed their blood for the common fatherland. During its existence personal ties were established between Czechs and Slovaks, or many mixed marriages which should preserve the existence of a just federation. It was only recently that we began to build its foundations.

Alas, actions by a part of Slovak politicians (as also Czech ones) are creating a situation that makes it appropriate to let the citizen know what awaits him in the future. Even though my sentiments are of an absolute democrat and humanist I am convinced that the further existence of our state must be decided by CSFR citizens in a referendum and not by politicians. And to make the decision they must be fully informed, including on economic matters.

I have made a study of only a tiny fraction of the problems which would arise in consequence of Slovakia proclaiming its independence. Let me still pause for a moment over the concepts of sovereign power, sovereignty. Slovakia has these attributes guaranteed in Article 1 of the introduction to the current CSFR Constitution. But if someone argues for recognizing Slovakia as an independent entity under international law he can no longer disguise it by terms such as sovereign power, sovereignty. He must admit the truth that what he wants is an independent Slovak state. He cannot preach water and drink wine thereby deceiving citizens. We have had our fill of similar lies during the past 40 years. The citizen must not again be deceived, he has a right to know the truth.

**Calculating Economic Effects of Possible Division of CSFR**

- Inevitability of Establishing an Issuing Bank and Printing New Bank Notes

The costs of operating this bank (central bank) inclusive of interest costs from loans would amount to 14,789 million korunas [Kcs]. This sum includes operating costs, material costs, wage costs, levies on wages, interest costs.

Issuing bank notes in the present quality and structure (10, 20, 50, 100, 500, 1,000) would require Kcs750 million. Issuance in the quality that is standard in the advanced countries (deep photogravure) would cost a

minimum of Kcs1,100 million. Minting a series of new coins in the present structure would require a sum of Kcs100 million.

The final total for the basic banking sphere would amount to Kcs15,639 million. In addition to the aforementioned costs one has to consider the setting up and financing of a development fund as an indispensable aspect of a central bank's operation (restoring a computer network, software equipment and the like), to the tune of about Kcs560 million. Source: Data from Czechoslovak State Bank

- Establishing Diplomatic Representation

The annual cost of operating a complement of diplomatic missions alone is Kcs1,178.326 million. To this must be added the investment cost of renting or purchasing real estate all over the world (in all places where a newly emerging state will wish to establish its diplomatic representation). These costs are so high that it is very difficult to put a number on them (for instance in the FRG the monthly rent on a single apartment is around 2,000 German marks). It will not do to assert that existing premises will be available for use because in case of the Slovak Republic emerging as a subject of international law it would acquire at most one-third of the premises worldwide. Source: Federal Ministry of Foreign Affairs budget for 1991

- Establishing a Network of Commercial Representatives

Funding of the operating and personnel costs of commercial sections abroad involves an annual expenditure of Kcs1,042.624 million. To this must again be added rent of buildings and appropriate premises in countries where a commercial section is to be established. Absent such network it is impossible to increase the foreign trade volume and thus the flow of foreign currency to the state treasury. Again it is possible to count on only one-third of the CSFR's present premises. Source: Federal Ministry of Foreign Trade budget for 1991

- Customs Administration

The average annual noninvestment expenditure per member of the customs administration is Kcs81,450.

Total noninvestment costs of operating a middle-sized customs house (Kosice) amount to Kcs8.307 million.

Total noninvestment costs of operating the Bratislava customs house amount to Kcs19.111 million.

Total noninvestment cost of operating customs facilities on the Slovak Republic's territory amount to Kcs92.445 million.

Total noninvestment costs of the customs administration including customs police in the Slovak Republic come to Kcs196.384 million. These data do not include the customs administration's investment costs. Source: Data from the Central Administration of Customs

- Costs of Maintaining an Army

The average expenditure on one soldier in basic service amounts to Kcs33,000 (without upgrading).

A professional soldier costs an average of Kcs100,000 annually.

The cost of maintaining a single medium-sized barrack represents a sum of Kcs300 million.

A country of 5 million is estimated to need 50,000 troops (the number also depends on other geopolitical factors).

The estimated need for professional soldiers in a country of five million is 17,000.

Total costs for soldiers in basic service amount to Kcs1.65 billion.

Total costs for professional soldiers amount to Kcs1.7 billion.

Maintaining approximately 200 barracks requires a total of Kcs60 billion.

Total annual cost of maintaining an army amounts to Kcs63.35 billion.

The above data does not include the costs of equipment modernization and replenishment. Source: Data from the Federal Ministry of Defense

- Costs of Maintaining a Police Force

The average annual cost of one police officer is Kcs168,000.

The average annual cost of a central headquarters is Kcs140 million.

It is estimated that a country of 5 million needs a police force of 17,000.

Total costs for police personnel amount to Kcs2.856 billion.

The total estimated cost of maintaining a police force is Kcs2.996 billion.

The above data does not include the cost of police office space and of civilian employees. Source: Data from the Federal Ministry of the Interior

When we add up the items listed in this survey we arrive at the sum of Kcs84,402.334 million. Divided by the number of Slovakia's population (5.2 million) we arrive at Kcs16,231.20 as the tax burden on each citizen.

While the present average tax liability is Kcs10,604.50 per citizen, deducting this sum from Kcs16,231.20 leaves an additional liability of Kcs5,626.70 which every citizen including newborn infants will have to pay extra (on top of the previous tax liability).

But let us take a look at other economic factors as well. The Czech Republic (CR) and the Slovak Republic (SR)

share in the overall volume of foreign trade is as follows:

	CR	SR
<b>1990</b>		
Exports	76%	24%
Imports	75%	25%
<b>1991 (January Through June)</b>		
Exports	72.8%	27.2% (of which 22.7% to countries with market economies)
Imports	63.6%	36.4%

The data show that the CR's export-import ratio is more favorable than the SR's (an active balance of payments).

The above data indicate that the Slovak Republic's share in the CSFR's foreign currency receipts is approximately 27 percent, this being virtually the sole foreign currency income for the SR. Of course one cannot blame citizens of the SR or the CR for this state of affairs. It is a result of the policies of the past regime in which however the most influential government posts were held by Slovaks (Husak, Bilak). But it has to be recognized that a possible breakup of the CSFR into two subjects of international law would make the CR a foreign partner for the SR, and vice versa. Foreign trade between the two republics would probably be carried on in freely convertible currencies (dollars). But since the SR's foreign currency receipts would be utterly insufficient (neither could the CR avoid problems), the SR government would be forced to suspend internal convertibility and reintroduce foreign currency limits. As a practical matter this would instantly liquidate the basic pillar of economic reform and return the SR to administrative-bureaucratic decisionmaking. Private entrepreneurs would be actually deprived of access to freely convertible currency sources and thus to foreign trading, which would feed back in terms of a further reduction in the government's hard currency receipts and liquidate the other pillar of economic reform—liberalization of foreign trade.

Among the advocates of a Slovak state the idea has been bandied about that Slovakia could manage with exporting semimanufactures. This is of course a layman's idea. The present Slovak industry requires considerable energy and raw material inputs. (The SR's share in raw material and fuel imports ranges up to 45 percent within the CSFR total.) The electric power output ratio between the CR and the SR is 3:1 so that the SR would have to buy energy for convertible currency. These data show clearly that the manufacture of semifinished products would have to be subsidized by the government to make it at all salable (even to the CR which could buy more cheaply elsewhere in the world).

A reshaping and restructuring of SR industry absolutely requires foreign capital investment. But this capital gives careful consideration to where it invests its resources and thoroughly monitors the press (NOVY SLOVAK, ZMENA, etc.). It does not invest where the conditions

are uncertain, which of course would lead to a rapid "expiration" of the Slovak economy.

Advocates of a Slovak state sometimes argue that the Slovak citizen is a better worker than the Czech. This may be true in individual cases but statistics tell a different story. This is because they do not reflect diligence and effort but rather the productivity of labor (quantity of products expressed in monetary value per unit of time), and that according to the data is 17 percent higher in the CR.

This is not necessarily connected so much with diligence as with the organizational and managerial skills of top executives. (On Slovak territory there are still large numbers of the so-called old structures in enterprise management.)

I also have to bring up the issue of international agreements (GATT, GSP—General System of Preferences, most-favored-nation status, association with the EC, agreements to prevent double taxation, agreements on the protection and security of investments, self-limiting quota arrangements, bilateral trade agreements, payment agreements and so on). These have been concluded with the CSFR, not with the CR or the SR. Since it would be difficult to determine which is the successor state, new negotiations would have to be conducted, new agreements signed. This process may require as much as several years. Of course during the time when no such agreements are in effect foreign trade would be at great disadvantage (we are talking here of hundreds of millions of dollars) which would be reflected in restrictions on both quotas and commodities, considerable customs disadvantage and so on.

Another problem would arise in regard to seeking repayment on debts owed to the CSFR. The USSR alone owes our country about \$4.3 billion, the rest of the world approximately \$5.4 billion. These obligations might become uncollectible if there does not exist a legal successor.

The facts cited above are only part of the whole array of economic problems which would arise if the CSFR is divided up. Hence it is hard to agree with Mr. Carnogursky's opinion that these data are misleading. I agree with him fully when he contends that the motivations driving the desire for a state include also a host of considerations which cannot be translated into money. But this is a matter which cannot be decided either by Carnogursky or Baksay or other individuals but only by 15 million CSFR citizens. And the politicians have the duty of putting before them also the final account on how much "it would cost." If even after that the overwhelming majority of citizens should decide in favor of living in an independent state, everything would be different.

But I am confident that the absolute majority of CSFR citizens are wise people thinking in European terms who desire a federation without any qualifying adjectives. Because this is the sole guarantee assuring them prosperity, freedom, democracy, justice and social rights. We

are on the threshold of building such a society. And in spite of our opponents we will manage to accomplish this demanding task.

### **Bank Recapitalization, Debt Reduction Viewed**

92CH0072A Prague *HOSPODARSKE NOVINY*  
in Czech 11 Oct 91 p 3

[Article by Vaclav Klaus, Minister of Finance: "On the CSFR Financial Council Decision on Bank Recapitalization and Debt Reduction"]

[Text]

### **I. The Context of Debt Reduction Under Current Czechoslovak Economic Conditions**

One of the main characteristics of our efforts to transform the Czechoslovak economy into a market economy is the pressure being placed on all economic entities to make fundamental changes in their behavior, to shed their old habits related to the concept of a paternalistic government, and to assume full responsibility for their own decisionmaking. Businesses are resisting these pressures in all kinds of ways, and are attempting to maintain their links to the channels through which lifegiving government protection flows.

In discussions on reducing enterprise debt there are undoubtedly a number of rational arguments. Nevertheless, here too unfortunately a large portion of the arguments are related to the efforts to resist transformation pressures. These positions are reflected in the programs of the enterprise sphere, of monetary institutions, and above all commercial banks. This is evident mainly in the high level of indebtedness of businesses and in the low level of capital available to commercial banks.

We have never closed our eyes to these problems, but they also cannot be viewed in a narrow context, apart from broader influences. The current high level of business debt and low level of bank capitalization is true of the economy as a whole, not just of one stagnating branch or a relatively small economic sector. It is the result of continued adherence to past management principles, of living in the present at the expense of the future, and at the same time a phenomenon that accompanies the essential adaptation phase of the enterprise sphere to the conditions of the emerging market economy. When looking for historical precedents, one must recognize that there has never, anywhere, been debt reduction for an economy as a whole. To accept the idea of total debt elimination, as presented most of the time by interested entities, means to annul the current systemic pressure for economic transformation and the introduction of efficiency principles into enterprise management. It implies, in other words, the preservation of the status quo. It is an attempt to postpone reform. This danger cannot be ignored and only by being fully aware of it can we take rational steps to solve the problems related to this issue.



## II. Problem Identification

High business debt and low commercial bank capitalization cause serious problems on both a macroeconomic and microeconomic level.

At the microeconomic level the following groups of problems are evident:

- As a result of declining sales and high levels of debt some enterprises do not have money to finance ongoing operations. Debt service costs are high enough to threaten profit formation and are one of the reasons for enterprise insolvency. The inability to service and amortize bank debt means loss of access to further credit for an enterprise. Eventually payments stop and softness in the legal and economic systems lead to bankruptcy, which is, as a forced credit from suppliers, more advantageous for the enterprise (in terms of interest) than the bank credit. This situation, obviously, limits investment activity as well, even though this is not a priority problem as things stand now.
- Commercial banks report low levels of their own capital relative to their assets. They do not have sufficient reserve funds available. Some of the assets carried on their balance sheets are questionable as to repayment. This strongly affects their credit policies, causing them to give preference to short term lending, which minimizes their risk.

The common characteristic of this situation is blockage of money channels. Formally, money is "somewhere," but access to its effective utilization is seriously limited. The exchange process is severely hampered. This is the fundamental problem of the current economy, not the actual excessive debt of the enterprises.

At the macroeconomic level this situation is related mainly to the ineffectiveness of monetary policy. Traditional considerations of the interrelationship of product, price increases, money supply and velocity, expressed by the equation  $P \times Q = V \times M$ , have lost some of their meaning because the factors in the equation are now behaving differently than they have in the past. When  $V$  changes, the predictive capability of this equation is dubious. This is primarily true of the right hand side of this equation, where a significant portion of the money supply,  $M$ , "does not work" and the velocity,  $V$ , is a variable. Velocity is affected by a number of conflicting factors, but the predominant ones are pressures that, despite the "lack of money," tend to slow down the velocity.

All of this leads to supplementary tendencies to slow down production, which increases unemployment. Under these conditions applying the bankruptcy law means the danger of closing most enterprises, which in turn carries the threat of commercial bank failures.

The fundamental task has been to find a solution under which we will not spend all our time on the particular problem of indebtedness, but rather devote efforts to improving flows within the economy as a whole, on the

condition that harsh budgetary restrictions on enterprises be retained and that there be no weakening in the basic trends of monetary policy.

## III. Selective Versus Across-the-Board Programs

A common feature of most of the proposals made in the past month for solving the indebtedness problem have naturally focused on the problem of "bad" debts and their transfer to other entities. The basic dividing line of these proposals was that some recommended an across the board solution, while others were selective. Let us review the advantages and disadvantages of each approach.

Selective approaches assume that it is possible to evaluate the possibilities for future success of the indebted enterprise. This evaluation is usually to be based either on its current economic situation and performance and/or to include consideration of development plans for the future. This ex-ante view of course assumes that it is possible to evaluate a number of internal enterprise, but also external, uncontrollable economic factors, to say nothing of the situation on foreign markets in terms of the current or future export viability of the enterprise.

It is well known that similar plans existed here for several decades. It is also well known how successful these ideas were and the situation in which they placed the Czechoslovak economy. It is clear that government offices are not capable of making such evaluations. Under current conditions this task is even more complicated because domestic conditions are constantly changing and world market conditions are more complex still, particularly when one considers the extremely unstable situation in our traditional partner, the USSR, in its role both as a supplier of raw materials and in its role of a consumer. Nor is the situation simple for our other partners in the former CEMA, and developments in Europe and the rest of the world are also unclear.

Despite these facts and our negative experiences, selective approaches are still being advocated. Their defenders are frequently those who should have long ago demonstrated their viability in their own work. Not a single "branch" ministry has yet come forward with a serious proposal of criteria for evaluating the future prospects of their subordinate government enterprises, nor have any serious attempts been made to categorize enterprises into groups based on their assumed future efficiency. Here one must realize that it is not a question of identifying a few extreme cases on which to focus attention, but of a categorization that would convincingly include every enterprise into a performance category.

The problem is also to a large extent the fact that indebtedness itself is a negative characteristic of an enterprise that cannot be separated from everything else. If the main reason for the current inefficiency of an enterprise is not its high indebtedness, then a decision to "rescue" this debt can mean serious damage to those that were not rescued.

Across the board programs are based on the formulation of simple regulations that do not seek to discriminate among entities and which have the objective, in the context of the chosen mechanisms and allocated resources, of affecting in a positive way a majority of enterprises and banks. Such programs also have as their objective the improvement of flows in the economy as a whole. Clearly this approach can extend the life expectancy of a few "hopeless" enterprises, and there is also the danger that it will slow down the adaptation process at some of the better firms. This seems the lesser evil, however, if we want to deal with the extensive blockages of the economy as a whole and to the extent that we want to avoid, in conditions of greater uncertainty, the mistakes of the earlier planners by giving the economy a push that is in direct conflict with its natural laws of movement. The goal of reform is to open the way as much as possible to these natural laws.

#### IV. What Has Been Accomplished in This Regard?

Measures that have already been taken include:

- a) Financial guarantees offered by the government for bank credits in cases where the bank refuses to bear the risk itself (Kcs13.607 billion).
- b) Financial assistance in the form of interest free loans (Kcs3.666 billion).
- c) Subsidies to enterprises:
  - To compensate for demonstrated losses incurred by businesses due to the embargo of Iraq and Kuwait—Kcs1 billion (Kcs126.7 million already drawn).
  - To compensate for uncollectible invoices and unusable inventories resulting from the embargo, Kcs1.435 billion.
  - To compensate for devaluation losses of business organizations in foreign trade (during October of this year, resources in the amount of Kcs10 billion will be made available).
  - For depreciation of unnecessary inventories and to compensate for interest payments on loans for unnecessary inventories during conversion—Kcs2.6 billion (more than Kcs10 billion for the period 1986-92).
  - For Moderation programs in the uranium industry in 1991, Kcs2.2 billion (Kcs8.5 billion for the period 1986-92).
  - Approximately Kcs100 million for Moderation programs in the coal industry.

The total amount is approximately Kcs37 billion (Kcs24 billion after subtracting financial guarantees), which represents a significant burden on ongoing state budget expenditures and government financial assets. These are the ways in which the government is participating today to resolving the problem of the insolvency of enterprises and bad credits.

An additional, independent form of assistance has been the assumption of loans for permanently revolving inventories by the Consolidation Bank, at a lower

interest rate. To stabilize the financial situation at enterprises the Consolidation Bank assumed in March 1991 the debts of these enterprises to commercial banks in the amount of Kcs110.8 billion. The payment terms of these claims (eight years) significantly improves the structure of enterprise resources and means a significant improvement in the situation, even though the firms are not well aware of it.

When evaluating enterprise indebtedness one cannot lose sight of a number of indirect affects, mainly the impact of inflation. As is well known, inflation harms creditors and helps debtors. In our discussions the fact is for the most part omitted that inflationary developments, which in the enterprise sphere mean price increases for producers of 70-80 percent have in fact reduced by the same percentage the level of "old" credits in terms of current monetary measures. The real value of credits in relation to their nominal value has fallen by at least one-third. This "devaluation" of the annual payments on loans to a large extent then offsets the impact of increased interest rates, which occurred at the same time.

#### V. Recapitalizing Banks and Enterprises—One of the Potential Partial Solutions

The actual path to reviving monetary flows in the entire economy and therefore to resolving the problem caused by high enterprise indebtedness can be found in a strengthening of the assets of banks and enterprises. At the same time, in the context of current objectives for economic privatization, the possibility for a nontraditional resolution was sought precisely in relation to these objectives.

An important indicator of the viability of a bank is the ratio of its basic capital to the total of its loans. International standards demand that the basic capital of banks be at least eight percent of the total value of its outstanding loans.

Czechoslovak banks are undercapitalized by this standard, by about 50 percent. In a short time it would be highly desirable for them to at least double their basic capital (provided their loans remain constant). Doing this will significantly expand operating room and their willingness to accept risk. The failure of an insolvent client of a bank currently threatens the bank's existence. If debtors do not pay the bank, the bank will not be able to meet its own responsibilities to creditors. The more a bank is undercapitalized the greater is this threat. The objective of bank recapitalization is to create a "cushion," with which the bank can moderate possible bankruptcies of its debtors. Recapitalization is not the same as eliminating enterprise debts, but is at least positively correlated with it.

The chosen solution depends on the finding of specific resources for the entire operation. One possible variant would be to use the resources of the National Property Fund for this purpose, although this is controversial.

It is controversial because there are other potential uses for these resources—ecology, health care, education, etc.... It is imperative that Fund presidiums (and legislative bodies) consider well the utilization of these resources. Because these resources will become available only through privatization, this would in some ways be a solution at the expense of the future. The Funds would implement it by transferring their own promissory notes free of charge to commercial banks. Subsequently, when they have the stocks of the privatized enterprise, they will exchange the stocks for the promissory notes with the banks.

The banks will use these resources in part to increase their own capital, and partially to write off—at their option—certain enterprise debts. They will have about Kcs50 billion available for this.

As part of the measure to resolve the problem of recapitalizing banks and enterprises the Financial Council adopted the recommendations on the question of interest rates. This recommendation has been called controversial in the press, but this indicates a failure to grasp the relationship between both measures. The proposal was driven by two basic arguments. First of all, after many months price developments are finally under control, with inflation in the vicinity of zero percent. High interest rates under these conditions become a real brake on developing business activity. The second argument is no less important, because if the banks are recapitalized thereby increasing in their ability to bear the risk associated with high enterprise debt, one of the basic motivations is removed for retaining high interest rates and wide profit margins resulting from the differences between interest rates and the rates paid on time deposits. This would remove the need for banks to cover the risks from their credit operations with high profits.

#### Conclusion

The resolution adopted by the Financial Council at an extraordinary session is within the constraints of market conformity. It strengthens commercial banks and at the same time gives them room for a more selective and flexible credit policy. It is a solution that on the one hand prevents an avalanche like expansion of bankruptcies in the economy, while on the other hand provides banks with the strength to withstand bankruptcies of some of their clients. The Financial Council emphasized that this is an exceptional, one-time measure, and that there will be no others. It is a solution related to the ongoing transformation phase of our development that is shifting our banks and enterprises in the direction of a market environment.

#### National Bank Reorganization Explained

92CH0068A Prague HOSPODARSKE NOVINY  
in Czech 3 Oct 91 p 9

[Article by Vera Nepimachova of the Czechoslovak State Bank: "Forming a Modern Central Bank"]

[Text] At the beginning of the second half of this year the Czechoslovak State Bank [SBCS] made fundamental changes in the organizational structure of the central bank. These are part of the overall changes being implemented at present not only in our central bank but throughout our commercial banking system.

The main objective of the new organization is to make possible the establishment and implementation of a single bank monetary and foreign currency strategy and policy, to build a competitive and market oriented banking system, smoothly functioning primary and secondary securities markets, and to strengthen the role of the central banking sector in the transformation of the economy. A fundamental condition for the realization of these objectives was the creation of a modern central state bank with the necessary degree of independence in the management and implementation of monetary policy. It would be the institution with responsibility for these matters, with the necessary trust and authority in the eyes of the public.

Plans for the new organizational structure had to reflect changing external economic and social conditions, and provide an optimal amount of integration between effective implementation of the main objectives of the central bank and fulfillment of the requirements of the competence law for managing the federal center and the centers of both republics, with independently applied responsibility in the managed area. At the same time the entire organization was simplified, both horizontally and vertically.

The actual formation of the new organizational structure drew on the experiences of the International Monetary Fund and the central banks of a number of European countries. It was not possible however to use any foreign organizational model in its entirety, because the new organization had to conform to our conditions. The new structure involved a number of fundamental changes in most SBCS divisions and its entire internal management system.

A major change that has so far not been made in any existing central bank organizational structure in the CSFR was the establishment of a bank council. Although its composition, basic functions and to a certain extent its activities are based on Constitutional Law No. 556/1990 concerning the Czechoslovak federation, the final concept of the bank council as the executive management collective of the bank will appear at a later stage, after the promulgation of the new law on the SBCS.

The new organizational structure divides the current SBCS headquarters, combining major institutions into a single organizational unit, into three relatively independent organizational units, namely a federal headquarters operating at the federation level, and two institutions with authority over the Czech and the Slovak Republics.

Another major change is the complete organizational merger of the divisions working in the koruna and the foreign currency spheres of monetary policy. This was

done because every goal and its implementation in this area must respect both of these sides, which interact with each other.

The main level of management in the new structure has become the division, which has all the necessary authority. Divisions with related charters are then aggregated into sections headed by managing directors. The SBCS vice presidents, whose number was reduced from four to two, will therefore no longer be directly involved in internal bank management. The bank leadership, represented by the members of the bank council, are therefore responsible for planning overall strategy and for the executive management of the bank. All operations, decision making and measures taken to implement approved strategies are made at the division level. These divisions, which represent the professional staff of the bank, can be divided into roughly three groups.

The first group is the bank strategy division. It is responsible for analyzing the current economic situation, formulating measures and proposals for monetary strategy, and for that part of implementation that must be closely coordinated with strategic proposals. More specifically, this is an economics section comprised of the currency division, responsible for monetary strategy, the bank business division, responsible mainly for managing the development of primary and secondary securities markets, and finally the statistics division, responsible for not only the numbers, but also their analysis in support of overall bank policy. The implementation of established strategy in the foreign currency area, based on stable regulations, will be handled by the foreign currency section, made up of the foreign currency permits and inspection division and the foreign division. The press and information division, which provides information to the public concerning the views and positions of the SBCS, belongs to some extent among the divisions working on bank strategy.

The second group is made up of the information systems divisions. These include the information services division, which employs information technology specialists to provide services to end users, the accounting division, and the computerization division. Management of the entire section also includes links to the central branch that actually performs central bank accounting and the computerized banking services enterprise, which provides not only the current ABO operations, but is also intensively involved in the opening of a new clearing center designed to integrate the noncash payment relationships for the entire banking system.

The third group is the monetary division, responsible for the actual issuing function of the bank. These are mainly activities related to protection of the currency, the laws related to the money supply, the design and production of bank notes and coins. The actual execution and management of this issuing activity within the central bank and relations with other commercial banks is handled by the two main institutions and their branches. The third group also includes the management and

administration division. This is the home of the support divisions, which create the conditions for development of the bank.

The bank inspection division holds an independent position, apart from level of the divisional entities. It performs a special function and has responsibilities for the development of the banking infrastructure and in the inspection of commercial bank activities. Because this is such a fundamental entity its final form will be decided upon in conjunction with the promulgation of the new law on the SBCS. The need for a concrete decision, and in the final analysis, also a discussion among a number of economic experts on the pages of professional journals argues for the central bank having responsibility for bank inspections, while at the same time respecting the independent and to some extent different standing of the divisions, as defined by the new organizational structure.

It can be said that both republic institutions are set up in approximately the same way, with functional responsibilities corresponding to those of the republic offices of the central bank.

The new organization of the SBCS represents the first stage of the organizational changes, even though the changes are more extensive than once planned. In the final phase it will be critical that the organization correspond to the new law on the central bank and that it succeed in building a new state central bank comparable to similar institutions in advanced European countries.

Note: The SBCS gained a new phone number as part of the organizational changes: 2391 1111. This number makes it easier to contact the bank and allows you to dial extensions directly.

### **Sales Tax Adjustments Announced**

*92CH0071B Prague HOSPODARSKE NOVINY  
in Czech 10 Oct 91 p 9*

[Unattributed article: "New Sales Tax Rate Adjustments"]

[Text] The attempt to unify tax rates and the need to revive the sales of domestic passenger cars has led the Federal Ministry of Finance to make further adjustments in taxes on certain products. The legalization of these taxes in the context of changes and supplements to the Sales Tax Table applicable as of 1 October 1991, is mainly focused on two very important areas, of interest to more than just our current and future motorists.

Sales taxes are significantly reduced on automotive industry products (categories 440-447). This change affects passenger cars, delivery and special purpose vehicles, minibuses, buses, trucks and their modified versions, trailers, and all components and parts for these vehicles. Previously the tax on these items was 29 percent. As of 1 October the tax will be reduced to 20 percent. This level of taxation places these automotive industry products in a group with almost all of our other

products. This is the second reduction in the tax on passenger and delivery vehicles since the start of the year. The original tax of 40 percent was reduced in May to 29 percent, and has now been reduced to 20 percent. This takes away one of the arguments of the automobile manufacturers, namely that the high sales tax was mainly responsible for the sharp decline in sales of Skoda Favorit cars. Now it is the turn of the manufacturers to change their cost structures so that the Skoda Favorit can compete effectively with world renowned cars on the domestic market.

The concurrent reduction in taxes on parts and automotive components also means that prices will now be acceptable for catalytic converters, which are so necessary for improvements in our devastated environment.

The second area that will be of interest to our motoring public is the establishment of significantly lower sales taxes for ecologically safer fuels. To be sure, these have been used for some years now as alternative fuels elsewhere in the world, but here the conditions have never been created for their wider utilization. One such condition was a sales tax rate that would facilitate their wider utilization. As of 1 October an independent tax was established for both liquid fuels and for esterified rapeseed oil used as a motor fuel. For compressed gaseous fuels (such as natural gas, biogas, propane-butane, etc.) that will be used as fuels, the tax was set as of 1 October at five Czechoslovak korunas [Kcs] per cubic meter. When these fuels are used in their liquid form, the tax was set at Kcs6,000 per tonne.

Another ecologically favorable fuel is chemically processed rapeseed oil used by itself, or mixed in any proportion with diesel fuel. This can be used to propel internal combustion engines. The tax on rapeseed oil for this use was set at Kcs4,000 per tonne.

The use of these nontraditional fuels has a significant ecological impact, in addition to conserving financial resources. Preliminary tests on these fuels indicate that they have exhaust gas emission levels well below those of traditional fuels. For rapeseed oil, for example, there is significantly reduced smoking and hydrocarbon emissions, and no harmful sulfur emissions at all, which is the greatest current problem with diesel fuel. Another noticeable advantage of rapeseed oil is the light biological impact if it spills. The use of rapeseed oil as a fuel should also help farmers mainly by allowing them to do something about the excess rapeseed production, and the possibility of growing it on currently idle fields could allow the profitable use of those fields.

In addition to these major changes, the October Sales Tax Table also contains a number of changes in rates or tax practices.

The tax rate on simple plastic products, mainly plastic wrappers (category 283) was also reduced from 29 percent to 20 percent. The sales tax was eliminated for

radiant heating units (categories 540, 541), to allow organizations to purchase them for their own use without tax.

The group of products considered to be food concentrates (category 786), which is now not subject to tax, was expanded to include grain products suitable for sale as health food, which belongs to category 786 92. Previously these foods had been taxed at the rate of 20 percent. Also, the special tax was revised for 80 percent of refined light domestic spirits (category 757 21103). The previous tax of 88 percent was changed to a fixed tax of Kcs170 per liter of alcohol.

For filter cigarettes (category 788 2) the name of the line item was changed to make it more precise, so there would be no ambiguity when it was used.

Tax practices were changed as they apply to precious metals. A subparagraph was amended to allow tax payers to deduct from their own taxes a portion of the tax equal to the percentage of the price for which they procured precious metal products from the public. Finally, the Federal Safety Information Service was granted the same tax rates that currently apply to the Federal Ministry of National Defense, the Ministry of the Interior, the police, and the Federal Ministry of Transportation.

The full text of all these changes that took effect on 1 October will be registered in the *Laws of the CSFR*, and published in the FINANCIAL REPORT and PRICE REPORTER.

**Public Forum Economic Policy Published**  
*92CH0068B Prague HOSPODARSKE NOVINY*  
*in Czech 7 Oct 91 pp 7-8*

[Unattributed article: "Public Forum Economic Policy"]

[Text] In the place where we usually publish position papers of parties and movements on economic issues we are today presenting an excerpt from a Public Forum document that represents its overall position on economic reform. The material has been adopted by the executive offices of Public Forum [OH]: the OH Republic Council, and at the end of last month by the OH Conference of Chairmen.

Public Forum, as one of the heirs of Civic Forum [OF], accepts full responsibility for the chosen approach to the transformation process. We insist that a fundamental transformation of our economy is essential. We view criticism of some of the elements and consequences of the reforms frequently to be criticism directed squarely at our ranks, because OH has not renounced responsibility for government policy. Economic reform is not a simplistic, direct process, but a patient long term effort during which we will not avoid very difficult periods.

OH supports the basic pillars of the adopted economic reform, namely restrictive monetary and budgetary policy, price deregulation, internal convertibility, and

extensive privatization. In this we differ significantly from those who do not agree with the initial steps of the reform. Not even the radical approach to privatization can in the short term remove the responsibility of the government for the economic and social situation, for enterprise management and the overall functioning of our economy. We therefore consider an essential part of government policy in the transition period to be, in addition to macroeconomic regulation, an effective government structural policy, even though we realize that its scope will decrease in future years.

If we summarize the current status of the transformation of our economy, we note the following positive factors:

- Wage increase moderation, which is a significant stabilizing factor against inflation.
- A trend to price stabilization, even though most prices have been deregulated.
- Renewed confidence of the general public in the currency.
- Maintenance of the established koruna exchange rate and of the stabilization level of intervention to support internal convertibility.
- Equilibrium in our balance of payments with convertible currencies.
- Reduced government indebtedness with the banking system.

The negative factors in current developments include:

- A sales crisis that is structurally unhealthy, global and that continues to get worse. It holds the threat of liquidating a significant portion of even viable economic entities, and high foreign indebtedness.
- Increasing unemployment and an inability to implement retraining programs because the structurally desirable sectors are not evolving.
- Slow development of the private sector, of new businesses, and penetration into government monopoly sectors.
- Slow progress of negotiations to attract foreign firms into our economy, caused by the lack of government policy in this area and the lack of resolution of certain issues of property law and foreign currency/financial issues.
- A deep sales crisis in agriculture that is causing great financial problems for agricultural enterprises.
- A lack of fundamental documents outlining structural economic policy, especially in the areas of power generation, commercial, agricultural, housing, and regional policies.
- The drafting and passage of certain economic laws is lagging behind the progress of reform.
- There are still no conditions to support the creation of a financial market, which makes it impossible to direct capital flows to promising enterprises.
- The transformation process is being accompanied by immoral actions and disruptive processes (an influx of "dirty" money, "deal making" outside of normal channels).

## **Main Reasons for the Current Economic Problems**

### **Macroeconomics**

We consider the reasons for the serious deviations from planned development to be the following:

- a) A restrictive financial policy was imposed without regard for the specific structural problems of the enterprise sphere.
- b) The level of currency restrictions was excessive, in view of the extent and quality of the disequilibrium and price increases, and was not moderated at the right time. Particularly in view of the dramatic decline in demand on the markets of the former CEMA, the reduction in domestic demand, based on a drastic decline in real incomes, was too severe. The concurrent reductions in demand on both the foreign and domestic markets led to a severe sales crisis. This was worsened by a decline in investment demand resulting both from expected declines in order levels and high interest rates.

Demand restrictions during a recession will in all probability lead to a deeper recession. The total impact of strongly restrictive budgetary, monetary, and wage policies over the short term was to almost extinguish investment demand on the Czechoslovak market and to reduce demand for consumer goods by almost 50 percent.

High interest rates and an excessively cautious bank credit policy were two of the reasons last year for the increasing numbers of enterprise insolvencies. Relaxations of the monetary restrictions came too late and were inadequate.

### **Deregulation**

Deregulation and price liberalization were correct measures, even though they were not well coordinated with privatization and demonopolization efforts. The first thing that the economy needed was a valuation system, which could be provided only by a deregulated price system. The fact is, however, that price deregulation was not accompanied by effective measures against monopolies (cartel arrangements in the food industry, for example, were very evident). We are still lacking such measures.

Deregulating imports was intended rapidly to create a competitive domestic environment, as a condition for price deregulation. Across the board protection of the domestic market through a currency devaluation and undifferentiated import tariffs were not, however, appropriate to the differing competitiveness of our products. Regulation must continually be adjusted to domestic market situations.

The introduction of internal convertibility (which was absolutely essential) was accompanied by a significant koruna devaluation, and by the acquisition of foreign loans. Economies react to debt in three phases: when they are utilizing the assets, problems appear easy to resolve; in phase two, an economy learns with difficulty

to live without the loans; and in phase three, a crisis may emerge related to servicing the debt. We are not saying that this will be our fate. We must, however, precisely define the conditions that will allow us to avoid this kind of future. These conditions will exist only if we make our economy healthy, revive domestic demand, and expand exports.

### **Structural and Regional Policy**

Our economy is still not very competitive on demanding world markets, mainly in industries of the more complicated processing industries, but also in foods. In spite of this we are not implementing any kind of modern structural policy (including support for selected exports and protection against selected imports), as advanced countries normally practice, even against us. The current lack of structure is the result, instead of a restructuring that will help the economy.

A selective policy is also necessary for different regions. The application of general principles across the board could lead to the destruction of the economies of certain regions.

### **Privatization**

In small privatization we focused on auctions as the exclusive method for reaching a new definition of ownership rights. Other normal privatization techniques used elsewhere, such as rental leasing, selective management, and direct sales, were not given a chance here. Moreover, the auction process has in many ways degenerated.

Based on our experiences to date, we need to refine the auction method. At a minimum, this means recognizing a category of "dirty money" and not allowing it to participate in auctions. We cannot allow the intentional creation of a class of real entrepreneurs to be displaced by giving the green light to immoral elements of the population (nomenklatura, the new rich).

In large privatization, we consider a fundamental change in ownership relationships to be the means for changing the behavior of enterprises and making them more efficient. Understanding privatization to be the final end of all efforts in this area basically means forcing into second place the evaluation and comparison of individual projects in terms of their effectiveness and social utility. This places the act of privatization higher than economic calculations.

In conjunction with large privatization we want to increase the participation of foreign capital, which will bring not only money but also modern technology and management. We want to support the formation and accumulation of domestic capital. We are giving priority to foreign capital participation right in the phase of denationalizing specific enterprises.

We want to support the formation and accumulation of domestic capital by offering loans at advantageous interest rates, and by renting privatized facilities with options to buy.

The excessive scope of coupon privatization carries excessive risks. Coupon privatization will create a class of dispersed owners with very limited impact on enterprise management. The sale of stocks acquired at a low price can lead to the entry of foreign capital in search only of short term profits at the expense of the domestic economy. Potential inflationary pressures are also significant. In addition, coupon privatization, in contrast to other privatization forms, does not allow the creation of supplementary domestic capital that is necessary to get the economy moving.

Preparations for coupon privatization have already slowed the process of small privatization. Atomized stock holders will not be able to exert effective influence on enterprise management. This means that coupon privatization is the last hope for incompetent managers to remain in their positions. As an alternative, we propose the use of privatization techniques that support domestic capital formation, and increase the participation and motivation of employees, such as the American Employee Stock Ownership Plan.

### **Agriculture**

The necessary change in the structure of production could be implemented only to a small extent in 1991. One of the main reasons for this is a lack of an agricultural policy originally planned for 1990, that would facilitate the implementation of basic measures in the reform strategy for agriculture.

The economic reform that has been implemented, lacking some of the mechanisms in the original plan, has resulted in a significant worsening of the revenue position of most agricultural enterprises. The price of inputs has increased to the level allowed by the deregulated market. Costs were not allowed sufficient time to adapt, though, and the resultant pressure has led to declines in production which, in agriculture, cannot be immediate. Procurement prices for agricultural products have remained at the same levels as last year as a result of the excessive production, and in some cases have even declined. The situation has been worsened by changes in credit policies that have been implemented nationwide.

The financial situation in agriculture, which is reflected in enterprise insolvencies, causes significant problems in other sectors, including chemicals and machine building.

We cannot continue with the old system of agricultural self-sufficiency "at any price." This approach would significantly harm agriculture and lead to its collapse. By the same token we cannot ignore the specifics of agriculture and believe only in the salvation of the market, that the market can resolve all the problems.



Recent findings indicate that the transition of agriculture to a market economy will involve a very complex transformation process, with a number of conflicting trends resulting from significantly different approaches of both the enterprises themselves, and political forces. Important steps include the transformation of cooperatives, the privatization of state farms, and the breakup of monopolistic processing branches created by the merging of agricultural capital with food industry capital.

The process will involve the development of market relationships based on private ownership of all business entities. It will define sensitively the line between pressure on agriculture to produce competitive, healthy foods at a world class level and the need for a successful transition of agricultural entities to independently managed organizations fully responsible for their own businesses and economic performance.

This objective would be initiated by OH in three steps, with varying degrees of government involvement:

- 1) Resolving the current revenue positions of agricultural entities, in which the government would play a large, temporary role.
- 2) A transitional period for dealing with excess production and the restructuring of production, in which government involvement will decline.
- 3) The final step will involve market equilibrium and a fully functioning market economy in agriculture. Agriculture will be a completely export, import open branch run on principles similar to those in the European Community [EC].

#### The Next Steps in Economic Reform

We need to take the following steps to revive the economy:

#### Reviving Domestic Demand

OH demands that the government submit a program for reviving demand, based on these principles:

- A reduction, or restructuring, of excessive enterprise obligations and enterprise insolvencies.
- A moderation in credit restrictions and a lowering of interest rates.
- Continual adjustment of government budget expenditures on social needs, and especially education and health care, so that the expenditures in real terms are no lower than those of the previous year.
- Further preparation and implementation of investment programs for environmental protection and infrastructure development, in particular programs for rebuilding, modernizing, and expanding the transportation and communications networks financed by government bonds, credits, and foreign loans.
- Support for the creation and growth of small and mid-sized firms through the choice of appropriate

privatization techniques of small and large privatization, advantaged access to bank loans (backed by guarantee funds), the granting of tax breaks and provision of advisory services in the area of finance, marketing, etc.

- Support for domestic and foreign investors in the form of clearly specified and advantageous conditions in financial and depreciation policies.
- Protection of the economy from imports, with particular application of import contingencies and customs policies.
- In the context of price deregulation, the deregulation of wages, thereby making it possible to offer merit based compensation.

#### Export Offensive

OH insists that the government present a concrete program to expand exports, and that this program be based on these principles:

- Adoption of export support regulations such as advantageous credit terms, insurance, and tax breaks.
- Linking proexport program support to actual export performance.
- Development and implementation of the J. Dienstbier plan to maintain the Soviet market, with Western assistance.
- Initiate the formation of a free trade zone, initially with Poland and Hungary.
- Develop a program of export expansion to those countries where our export levels are low.
- Develop and implement a program to send trade missions abroad with substantial bonuses available for achieved performance.

#### Next Privatization Steps

The purpose of privatization cannot be the mere transfer of ownership rights to government property to private hands. Instead, its purpose should be the creation of an effective capital structure with differentiated forms of ownership and a variety of owned entities. Even at the expense of dragging out the privatization period, we should give more priority to privatization forms represented by the engaged owners. In this regard it would be desirable to do the following:

- Base the choice of privatization techniques on entrepreneurial objectives.
- When privatizing retail networks, operate based on a privatization plan (large privatization), employing various privatization techniques with the objective of forming a better functioning trade structure.
- Give preference, when considering foreign capital participation, to the expansion of a firm's capital, rather than the mere sale of enterprise property.
- Create an extraordinary credit block designated solely for privatization at attractively low interest rates. Priority access to these resources should be given to individuals to support the creation of small and middle sized firms.



- To speed up large privatization, initiate the creation of investment funds, and allow them access to privatization credit to buy stocks on the condition that they continue to trade the stocks.
- Make sure that foreign capital participation remains in accordance with structural policy.
- Utilize the opportunity to create employee and managerial stocks, selective management and direct sales to managers.
- Implement the transformation of agricultural, production, consumer, and housing cooperatives so that there is no question about the ownership rights of cooperative members.
- Develop an enterprise management strategy for firms that remain temporarily under government management, and clarify the function of government offices in partially privatized companies.

#### Financial Policy

The revival of domestic demand, the export offensive, and successful privatization all require the implementation of basic changes in financial policy.

A single central bank is essential for the conduct of a stabilizing monetary policy. This bank must be independent of the government and as far as possible from political influences. OH fully supports the adoption and implementation of a Czechoslovak State Bank, on the above principles.

Financial policy must be managed so that it does not restrict the development and transformation of our economy. To this end we need to codify the creating and operation of commercial banks, because the current practice of granting permits on a case by case basis makes potential bankers nervous and tends to deter foreign institutions from setting up operations in the CSFR. Likewise, only a law can codify the conditions for the functioning of financial markets, and especially exchanges. Already the lack of institutions for such a market is retarding the appearance of natural capital flows within the constraints imposed by mutual enterprise insolvency (the chained settling of invoices, their buyout, etc.).

OH has five budgetary priorities:

- The entire budgetary system, as well as each individual budget, must be balanced.
- As the private sector grows, the government budget as a percentage of national income should decline by more than the same proportion.
- The amount of reallocation between the various budgets in the system should be reduced.
- The individual budgets should become gradually independent.
- Transition from a philosophy of covering expenditures for social needs to a philosophy of differentiated financing of the Republics and regions based on levels of resource formation.

#### Social Policy

OH social policy strives to maintain as much as possible social peace, and therefore supports:

- Negotiations among leading unions, employers and the government on important questions of employment and wage policy, and working conditions.
- Strengthening the identification of employees with their firms by implementing modern forms of participation, including joint employee ownership.
- Strengthening the family as the basic social environment for the exercise of basic social relationships, solidarity and assistance.
- Improvement in the organizational, legal, and economic conditions for exercising the rights of citizens for help in overcoming needs that are not under citizen control (the so-called safety net).

OH supports an active jobs policy and will:

- Support independent economic activity and citizen entrepreneurship in order to achieve the widest possible utilization of labor, financial, and material resources.
- Improve the system of labor offices, strengthen their regional cooperation with all participating partners and their active role in the labor market, support as well the efficient regional and intraregional movement of the labor force.
- Implement appropriate material assurance for citizens who lose their jobs, in a way that does not weaken their interest in finding new jobs, obtaining retraining, or to perform socially useful work.
- Demand legal and judicial protection of jobs commensurate with the conditions of a market economy.

In wage policy, OH will:

- Consistently protect wages in accordance with international agreements and programs of the EC (equality of compensation regardless of nationality, race, age, sex, religion, political and ideological beliefs) and equal conditions for employers and employees when negotiating wages.
- Further deregulate wage policy, initiate activities to speed up the overcoming of economic decline, and support increased economic efficiency, create conditions for stabilizing and increasing the real incomes of the population.
- Redefine the social and wage policy of government administrative employees.
- Implement a balanced system of minimum wages, by way of establishing standards for a minimum standard of living, minimum wage, minimum unemployment compensation, and minimal social payments.

In the area of social security and social assistance, OH will:

- Index social payments so that their real value does not lag behind the real value of incomes.
- Provide social assistance specifically to those who

need it and who try to overcome their unfavorable situation.

- Create the conditions for a balanced relationship between tenants and owners of housing.
- Assist in the social integration of handicapped citizens, mainly by providing the economic conditions for them to find jobs.
- Patiently overcome the social backwardness of part of the gypsy population, mainly by providing incentives for greater participation in the work force and for the education of individual gypsies.
- Develop citizen solidarity and effectively support humanitarian activities by citizens, citizen associations, church and other nongovernmental activities.

### Consumer Protection System

An integral part of the policies of all governments with market economies has become consumer protection, because consumers in a market environment are subjected to pressures and offers from dishonest suppliers. This can threaten his economic interests, safety, and health. Consumer protection is closely associated with an overall approach to assuring the quality of products and services, especially through government quality policies. Given the current status of the market in the CSFR, among the most pressing tasks for the government is the protection of the safety and health of consumers, and their rights to quality products and services at reasonable prices.

### Education and Upbringing

Upbringing and education will be critical long term factors in economic growth. Also having an independent, but essential role, are cultural factors. These will provide a new system of values which, through educated citizens, will stabilize both the social structure and the political system. OH therefore advocates continuing increases in expenditures for education and upbringing, their reasonable use, and rejects the view that these increases, as with expenditures for environmental protection, should be postponed to a period after we have dealt with the current economic crisis.

Resolving these problems will be financially demanding. The resources needed to revive the economy and restart economic growth can be obtained from several sources of differing sizes:

1. Foreign capital investment.
2. National property funds (from privatization revenues, exclusive of single purpose credits).
3. Government bonds.
4. Bank capital (by granting loans).
5. Western assistance covering Soviet imports of our goods.

6. Loans from international financial institutions (these loans should be reserved exclusively for development programs, and should be minimized).

7. The main sources of growth must be produced by the reviving economy itself, using previously unutilized factors of production, and the leveraging of the resources applied to the revitalization.

8. Government financial reserves; on exceptional occasions and to a limited extent.

When implementing economic reforms it is essential in the individual phases to carefully research and determine the social feasibility of specific measures.

Future reform proposals must be constantly examined in light of the achieved results, and adjustments made as necessary. In doing so we must avoid either of two extremes:

- On the one hand economic collapse, where declines in production cause severe dislocations in the flow of production. This means essentially supply problems coupled with a sales crisis, high unemployment, insolvencies and unpayable debts.
- On the other hand hyperinflation, which devalues accumulated financial resources, savings, cripples the function of money, undermines investment and entrepreneurial activity.

### NEZES Policy Studied by Economist

92CH0071A Prague HOSPODARSKE NOVINY  
in Czech 10 Oct 91 p 6

[Article by Emanuel Sip: "Defining New Horizons: Comments on the First Version of the Program of the Independent Association of Slovak Economists"]

[Text] The following basically polemical article might better be placed on a page devoted to discussions of economic reform. We have placed it here, however, because it also contributes some new views on the topic of what exactly is "social."

It is difficult both to acquaint readers with, and to comment on conceptual materials the content of which has so far been kept in the dark. The first version was titled "New Horizons for the Slovak Economy," and was written by a large team led by Professor Koctuch and Dr. Plachtinsky in May-June 1991. The first version was distributed only among the members of the Independent Association of Slovak Economists [NEZES], with a clear effort made to avoid leaks to the general public. It therefore took some time for some copies to cross the Morava river. The material is now having an impact. It is significantly affecting the economic thinking of the ranks of the Slovak representatives (Movement for a Democratic Slovakia [HZDS], Slovak National Party [SNS], Christian Democratic Movement [KDH]). The concept consists of two basic parts. The first part contains program principles and the second part draws

conclusions, under the title "Slovak Reform." The text reminds one in part of serious scholarship, in part of poetry, and is written in very difficult language.

### Prologue

The program principles begin in the first chapter with an enthusiastic celebration of nature and the nation. The praises are sung of the fertility of the agricultural land, the wealth of the forests and the streams, the availability of mineral resources, tourism, not to mention advantageous geopolitical position. No mention is made, however, perhaps intentionally, of the extensive damage caused by 40 years of communist rule to values and people. The lovely images continue in the introduction to the second chapter, called Structural Changes. This chapter describes how the future Slovak economy should look. We learn that this economy will be mature and open, ecologically state of the art, self-sufficient in the production of pure foods, successful on international markets, with a modern infrastructure, developed tertiary sector, and socially responsive to boot.

When reading the prescription for these structural changes the reader notices an interesting thing: While it is clear that this point will be reached simply through the long term allocation of capital and labor under market conditions, the objectives seem to assume the presence of some kind of creator in the background to put everything in motion. It quickly becomes clear that this is nothing other than the good old bureaucratic state. The bureaucracy is charged with putting together the set of programs for structural changes, and implementing them with an entire orchestra of financial and economic instruments that it is to use to manage the economy. This setup is charged with truly ambitious planning objectives, including conversion, reducing the energy intensiveness of industry by 20 percent, increasing the tertiary sector's share of national product to 45-50 percent of the total. All of this is to be accomplished while maintaining unemployment at the 6-8 percent level for four to five years.

The question clearly arises of how the state bureaucracy plans to finance this colossal undertaking. The authors rule out ahead of time any sharp reductions in employment as a way for enterprises to conserve resources. Tightening the tax screw would probably not be enough. Sharp restrictions on household incomes or confiscating their savings would probably also not be popular. The possibility of involving foreign capital in this mess is rather theoretical. In the end the talk is about a deficit budget. The authors do not address the related question of the extent to which this will provoke inflation that will devalue the newly printed money. The overall material seems to be nothing other than a new variation of the Janos theme: the government budget should be capable of taking nothing from anyone, giving everything to everyone, and efficiently.

The basis of the agrarian program is support for agricultural cooperatives. But careful. The cooperatives will be

operating on rented land! This is supposed to be implemented by a so-called Slovak Republic [SR] National Land Fund, which will first of all take almost all the land through forced rental arrangements or procurement, so that it can then rent it out. We emphasize that this is a proven principle, from as far back as the period of the blossoming of Soviet kolchozes.

In the chapter on foreign economic relations it is noted, in part correctly, the small share of CSFR foreign trade accounted for by Slovakia, which allegedly is responsible for low levels of interest by foreign investors in investing in Slovakia. The logic behind this assertion is a little rusty, however. Foreign investors usually do not wait until they are asked to express an interest in a country by that country's ambassador or representative. Rather they actively look themselves for possibilities to penetrate a market, typically checking out their ideas on location. When they learn that in addition to the significant bureaucratic barriers that exist throughout the CSFR there are also political doubts in Slovakia as to whether they want to engage in a market transformation at all, it is obvious that their interest is going to cool. This is the first topic that the NEZES theoreticians should consider. The ambiguous constitutional legal situation is also very harmful.

The chapter on R&D, innovation, and investment policy contains at times very necessary principles. The problem is that this policy is to be implemented not by the market and competition, but by government bureaucrats, who are supposed to effectively coordinate investment, innovation, and quality. The clear expectation is that somehow these people have suddenly learned how to do something that they could not do for the past 40 years. Entrepreneurial efforts will certainly not be stimulated by bureaucratic setting of maximum prices on construction output, forbidding the buying of land and nonproduction facilities by foreign investors, or the forced collectivization of construction firms.

Chapter five discusses the strategy of an employment policy. This involves weakening the phenomenon of unemployment at almost any price, part of which is inevitably an inflated role for the government, which is supposed to serve as an advisor, sponsor, low cost insurance provider, and encyclopedic information center all at the same time. Only one aspect of unemployment is considered, namely government expenditures on support and retraining. What is ignored is the fact that a certain degree of unemployment is a necessary byproduct of structural changes and, in the final analysis, guarantees that those who are employed are productive. Likewise disappointing is the approach to possible failures of government enterprises, if we understand it correctly, and if we realize that an enterprise bankruptcy is first and foremost a failure of the management structure. The role of the government is likewise emphasized in part six, which discusses ecological policy.

The most controversial is Chapter 7, which makes a strong demand for a Slovak currency center, which as its

first act would introduce again a fixed exchange rate, probably only for the Slovak koruna. This rate would be higher than today's market rate, and would therefore inevitably also be accompanied again by the allocation of foreign currency by enlightened central bureaucrats. It is then only logical that for the associated Slovak issuing bank no request is made for independence from the government and its representatives (an independent bank, after all, would have to repudiate, a priori, the outlined principles of monetary policy). On the contrary, this bank is included in the system of offices responsible for public administration on the territory of the SR.

A separate chapter is devoted to the concept of a social policy for Slovakia. The discussion of national health and education issues is perfunctory. More space is given to concern for product quality and consumer protection, where the main player is again the government, which makes contacts with the rest of the world, organizes and inspects, with the support of complex legislation. The reader finds nothing specifically Slovak, nothing new or innovative for the care of the old, the socially weak, the handicapped, and no comprehensive program for dealing with the gypsy issue. Maybe these will be addressed in a later version.

#### **Slovak and National**

All these chapters, however, are only a prologue to what is contained in Part Two. The second part contains a solemn proclamation of a unique economic reform, all cases of which are declined with the adjectives "Slovak" or "national." This material is a frontal assault on all the current reforms, and evaluates them as catastrophic, as programs that are ends in themselves, with no concern for resultant economic and social losses. The reform allegedly does not eliminate government ownership, but perpetuates and reproduces it. The state, it is asserted here, has not divested itself of enterprises, but no longer accepts responsibility for them, denies them resources in the interest of showing a state budget surplus, and forces them into debt. Deregulated prices act as a crooked mirror for any economic decision making. Some statements, as for instance the assertion that koruna convertibility drowned the economy in wave after wave of inflation, will have to be deleted from later versions, but that's all right. There is plenty of ammunition left. In the final analysis, not much of it was used to attack the remains of the past 40 years of a planned economy.

There is a life preserver connected to this description of apocalyptic threats. In the NEZES conception, positive developments in economic theory have subordinated the market to the higher goals of society. In addition, a higher standard of living takes precedence over completion of the economic transformation. Government enterprises will be transformed into employee cooperatives (under the leadership of the existing managerial structures) and their debts to the government will be written off. In addition, limits will be placed on prices of consumer goods (so consumers do not get upset), while the prices of capital assets will be deregulated (so that

enterprises are permitted to do everything). The other building blocks of this reform are well known. They include an administratively established koruna exchange rate, and a budget deficit. This all ends with the warning that if the existing reforms do not adapt to this picture, the Czechoslovak state will disintegrate sooner or later. It will then be left to the historians, allegedly, to decide whether the state fell apart because the economic interests of Slovakia were ignored, or because the Slovaks made excessive demands.

Let us now end our trip through this program that contains what amounts to an economic department store. It promises much, requires almost nothing from the inhabitants of Slovakia, certainly not that they take care of their own affairs and live more modestly. It also does not say who will pay for it all amidst the current misery and poverty. Possibly a budgetary deficit or foreign debt if it can be obtained, maybe the rich tourists who will flock to the mountain resorts. Whatever you want to believe. They also believed in Gierek's Poland.

It is not enough to simply print or borrow money. Above all it is necessary to value money to the maximum extent. Experiences of the developed economies have a clear message. None of these economies chose an easy life, all of them chose to open markets and be completely open to the world. Their disadvantages (in current Slovak this is translated as "specifics") were compensated for exclusively by hard work. Economies which, instead of adapting, spent time touting their superiority and putting up barriers against a cruel world are also known for how they have ended up: Examples are Albania and Cuba.

There is no doubt that in relative terms Slovakia is experiencing much harder times than Bohemia. This is mainly the result of differences in labor productivity before the reforms started, with commodity problems playing only a secondary role. Because the initial difference between Slovakia and "Czecho" is small, the differences in the consequences of reform will be less than, for instance, between Hungary and Romania, or between Poland and European Russia. Government policy can and should partially moderate the difference in the impact of the reform between the SR and the Czech Republic [CR], but it cannot eliminate them. Or, on the NEZES model, everything can be put off until tomorrow, so it can affect a future generation much more harshly. The choice, at least, is in the hands of Slovak politicians.

The NEZES material will undoubtedly be developed further. A new version will probably see the light of day sometime in early October. One might doubt, however, that further revisions will show any basic change in the concepts of its authors.

**Two Excerpts From the NEZES Program for the  
Socioeconomic Development of Slovakia**

**Excerpt 1**

"A market economy must from beginning to end be integrated with its social, human, and ecological functions. Instead of indifference of the market mechanism to its social and ecological impact, one must subordinate the formation of the market itself, its structure, to the higher objectives of society. In other words, the market economy cannot be allowed to develop at the expense of the real social and human rights of the Slovak population, or at the expense of the environment. If this is not ruled out from the beginning it is unclear whether a market economy can ever stop drawing its development from these sources at any time in the future.

"The formation of a Slovak market economy is therefore incompatible with the ongoing belt tightening required by federal reforms. For the population to support actively the transformation of the economy it must have at least some idea of how large the sacrifices will be and how long they will be required. At the same time, more rapid progress towards a higher standard of living should

take priority over more rapid completion of the economic transformation. In other words, the transformation should not be accelerated if this means postponing its positive social effects."

**Excerpt 2**

"The reform needed in Slovakia is therefore really different from the current federal reform. If the politicians do not reach agreement on a common reform that benefits both the Czech and the Slovak republics, the current Czecho-Slovak state will disintegrate sooner or later. It will then be left to the historians to determine whether the union fell apart because it ignored the economic interests of Slovakia, or because of 'inappropriate' Slovak demands.

"Either way, the critical state of the economy of Slovakia no longer allows its government or parliament to avoid clear, unambiguous decision to stop the current reforms. There is no longer any time to postpone this decision and wait for the results of negotiations concerning jurisdiction, constitutions, or the government agreement. On the contrary, the immediate stoppage of the current federal reforms and the uncompromising assertion of national economic sovereignty would serve to establish a bargaining position in the negotiations concerning government organization."

**Goals for Sectoral Privatization Presented**

92EP0040C Warsaw *RZECZPOSPOLITA*  
(*ECONOMY AND LAW* supplement) in Polish  
28-29 Sep 91 p II

[Article by A.K.K.: "A Council for Ownership Transformation Affairs Opinion: The Privatization of Economic Sectors"]

[Text] The Council for Ownership Transformation Affairs [RPW], which comes under the chairman of the Council of Ministers, discussed the concept of sectoral privatization at its 19 September meeting. A summary of the RPW opinion prepared following this meeting is presented below.

1. It seems essential to define the real goals of the program for sectoral privatization. The first goal should be to create an indispensable, to date nonexistent, data base so privatization decisions can be made in a comprehensive, rapid and economically rational way. The second goal should be to develop privatization programs for fields in which this is really specified economically, legally or by the market (banking, securities, the power industry, state farms, the automobile industry and the like).

2. The sectoral approach is valid only for privatization goals; an attempt to solve problems of so-called industrial policy at the same time via this route appears inappropriate.

3. The sectoral approach to privatization processes should not block and restrict the private initiatives of economic organizational units and it cannot break with the principle of treating enterprises as economic organizational units.

4. Sectoral privatization may carry with it the danger of restricting competition in a branch. Moreover, with the announced combined sale of economically strong and weak enterprises by the Ministry for Ownership Transformation Affairs, there likewise exists the possibility of the improper transfer of capital from economically strong organizational units to those that are in danger.

5. In our analysis of the list of 34 sectors which are to be the object of the program of sectoral privatization, we found it difficult to define the principles of their selection. Some of the branches (for example, the egg-poultry industry, the fruit-vegetable industry, the meat industry and the household chemicals industry) are not distinguished by any clear specifics. However, there is a shortage of fields which obviously require an individualized approach.

The criteria of selection for enterprises proposed for accelerated commercialization within the framework of sectoral privatization are also unclear.

6. The effectiveness of sectoral privatization requires a clear division of powers among the various organs of the

state administration, and especially between the Ministry of Industry and Trade and the Ministry for Ownership Transformation Affairs.

7. Just as we make use on a broad scale of the assistance and skills of foreign experts in the preparation of sectoral studies and in the preparation of enterprise restructurization programs, we should also draw upon the past achievements of domestic institutions in this field. Likewise, we should make more use of the experiences of Polish enterprise managers.

8. The council also makes a general note of the low quality of some sectoral analyses.

**Possible French Financial Aid in Construction**

92EP0040B Warsaw *RZECZPOSPOLITA* (*ECONOMY AND LAW* supplement) in Polish 28-29 Sep 91 p I

[Article by Malgorzata Szyszlo: "What Did the French and the Poles Want—Technical Aid or Housing Construction?"]

[Text] During a press conference called in the Sejm on 26 September, deputy Jacek Kuron blamed the ministers of land use management and construction of the previous and the present government teams, namely Aleksandr Paszynski and Adam Glapinski, for the fiasco of France's offer of assistance, which could have helped and which still can help to resolve Poland's housing problems. This related in particular to issues associated with the financing of construction.

According to PAP, deputy J. Kuron stated: "How long can we continue to ignore a partner that wants to become involved solidly in the most complex Polish issue?" He also called to mind that for two years now, French construction and financial institutions, including a bank granting mortgage credit, in an agreement with the French-Polish Foundation, have wanted to take action in Poland to facilitate the development of housing construction. According to J. Kuron, talks on this matter took place last year. Experts prepared the materials, with the result that it would have been possible to make a decision already at the end of last year. The World Bank likewise announced its financial participation in the entire matter. But the matter went nowhere, except for subsequent visits by French experts.

The next day, Friday, 27 September, Minister Adam Glapinski called a press conference. In his statement he said that he was pleased that deputy J. Kuron had broached the issue of housing construction, one of the most important issues for Poland. However, he added, the issue of financing construction is not as simple as making soup. In the opinion of Minister A. Glapinski, deputy J. Kuron had been misled and somewhat deceived.

Reporters were handed a hefty packet of materials which, according to Under Secretary of State Jerzy Zdrzalka, document the history of cooperation with

French institutions as well as the role of Dr. Irene Herbst, who accompanied deputy J. Kuron during his press conference. Then the under secretary explained that from the very beginning, the initiative of the Caisse des Depots et Consignations concerned the financing of possible technical assistance. The French had offered aid and consultation to develop a system for financing housing construction. On the other hand, there are no known announcements from the French side declaring any sort of capital commitment. The suggestions that we have lost our opportunity to build 1,000 apartments are exaggerated.

Minister J. Zdrzalka said: "In May we sat together at one table with the representatives of the World Bank who were working in Poland and the representatives of the Caisse des Depots et Consignations. We agreed that the French, under the direction of the ministry, would prepare a system for financing the construction and utilization of municipal housing. This initiative was to be financed by the French side. Earlier, we had succeeded in resolving the financing of this plan by the French-Polish Foundation. About two weeks later, Minister A. Slapinski, during a visit to Paris, signed an agreement with the Caisse des Depots. Then we made a proposal to Dr. I. Herbst, who was involved in promoting Polish-French contacts, to create a team within the ministry to coordinate this cooperation. Unfortunately, we could not accept the terms she proposed to us. This was especially in regard to the number of persons to be employed on the team directed by Dr. Herbst and their pay scale. According to the proposal that had been presented to us, six persons were to work part-time and they were to draw considerably larger salaries than other ministerial employees. In July we drafted a letter to Dr. Herbst to work on cooperation but according to the payment terms in effect in the ministry and employing a smaller number of persons. Dr. Herbst sent us a letter in which she upheld her position on wage and substantive questions. As a result, we are seeking another candidate to work on coordinating Polish-French cooperation."

The representatives of the ministry leadership noted that personal relationships come into play in this generally unfortunate matter. They said that Dr. I. Herbst was the adviser of the chairman of the Housing Construction Development Bank, who resigned this week.

Minister Adam Glapinski stressed that he still believes that cooperation with French institutions can be advantageous for the development of housing construction in Poland.

#### **Confederation of Polish Employers Founded**

92EP0040A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 28-29 Sep 91 p 1

[Article by Ewa Zychowicz: "The Confederation of Polish Employers Has Been Founded: It Will Certainly Not Be an Amicable Relationship"]

[Text] On 27 September 1991, the Founding Congress of the Confederation of Polish Employers met in Warsaw. The 21 organizations which arose as a result of the passage by the Sejm on 23 May 1991 of the law on employee organizations decided to appoint the confederation as a uniform representation of Polish employers to employee unions, the government and international organizations.

Since the law was published less than two months ago, employers have added on three branch organizations of a national scope in the electronics, textile and mining industries. Thus, the time has come for the creation of a strong organized lobby representing employer interests.

Prime Minister Jan Krzysztof Bielecki was a guest of the congress. In his address he stressed to need for the creation in our economic life of an organization which will unburden the government of issues of regulating social relations within plants. Employer organizations can be an excellent partner for trade unions, which are used to voicing their demands and considerations directly to government representatives.

Minister of Labor and Social Policy Michal Boni, who attended the congress, said that despite continuing legal restrictions on the activities of employers, his ministry is prepared to participate in negotiations between trade unions and employer organizations to eliminate conflicts and achieve social calm.

Andrzej Wilk, general director of the Confederation of Polish Employers, told RZECZPOSPOLITA that social calm is one of the major goals of the founding of this organization. It is also worth emphasizing that despite the general impression that still exists, the purpose of the confederation is, above all, to defend enterprise interests and not the interests of individual members of the enterprise management cadre. What makes this task of the confederation so difficult is that our economy is still dominated by state entrepreneurs who identify their interests with the interests of the government. Major changes must take place in the consciousness not only of the people responsible for managing an enterprise but also of the members of trade unions.

Senator Andrzej Machalski, who was elected president of the confederation, told reporters at a press conference that for the present the relationship between the representatives of the employers' organization and trade union representatives will not be an amicable one, but that both sides must understand that they are partners on the various issues that concern the enterprise. They must learn the art of negotiation and of joint participation in economic policy.

The confederation will try to assess the developmental opportunities of the individual branches of our industry and to participate in all matters which concern economic decisionmaking.

**Unemployment Statistics for 1990 Noted**

92EP0040E Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 30 Sep 91 p II

[Article by A.K.K.: "How Many People Were Employed in 1990?"]

[Text] The Central Office of Statistics [GUS] conducted research and is preparing a report on employment figures and the structure of employment in the national economy in 1990.

As the research shows, 16.474 million people were employed last year. This includes those employed in a regular work relationship (65.6 percent) as well as those, for example, who work in publishing (0.3 percent). The owners and coowners of production, trade and services plants and the like and those who own private farms and the owners of farm animals who do not own farm land constituted 32.5 percent. There are more and more working women in Poland. Last year they constituted 47.5 percent of all those employed.

What was the educational level of the employed? Of those who worked full time, 43.1 percent (3.808 million) were people with a higher education, post-high school education or intermediate vocational school education, including 959,000 with a diploma from a higher school.

Last year 197,000 graduates began their first job. This included 16.3 percent with a higher education and 27.7 percent who had graduated from post-high school and intermediate vocational institutions. One half of this entire group was made up of young people who had finished vocational school.

In toto, 1,453 people [as published] started jobs last year, while 2.594 million lost their jobs, which included job losses for 168,000 persons due to plant liquidations.

**Changes in Securities Trading Practices**

92EP0040F Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 30 Sep 91 p II

[Article by A.K.K.: "Changes in Securities Trading Practices"]

[Text] A meeting of the Extraordinary Commission for Affairs of Examining Certain Legislative Initiatives was devoted to the update of the Law on the Public Sale of Securities and Trust Funds. The meeting was conducted by Commission Chairman deputy Jan Krol; deputy Wieslaw Kaczmarek submitted proposals for change.

Chairman Leslaw Paga of the Securities Commission said: "I am grateful to the deputies for the initiative, for experience has shown that it is necessary to make certain changes in the law. In addition, another, general, update will be needed in a year or two."

This does not mean that the law is elaborated but we must keep in mind that the "Law on Public Sale of

Securities and Trust Funds," which was passed on 22 March 1991, set up the rules of operation of the capital market and created the fundamental institutions of that market: the Securities Commission, the stockbroker and the stock exchange. Thus, it created a completely new economic reality for us, one which is still being created. Several months of experience have made it possible for us to draw certain conclusions; hence, the need to change legal regulations.

After a brief discussion, the revisions presented by deputy Kaczmarek were adopted in full.

One of the most important changes is in the law on receiving a newly issued stock. It is assumed that an issue of new stocks to increase capital stock, which, in accordance with the trading code, may be held by former stockholders, is subject to the law on the public sale of securities. Formerly this was unclear, and so firms issuing stocks did not have to make a motion for approval from the Securities Commission, nor did they have to issue a prospectus of issue. The statement that the purchase of stock by employees according to preferential principles during the privatization of their enterprise is not to be considered a public securities sale was also introduced into the law.

Other changes concern brokerage firms. The possibility of the creation of a brokerage firm by physical persons was eliminated. To ensure that duties will be performed properly, the principle was introduced that a subject who is seeking a license for a brokerage office must give the reasons for cessation of economic activity, if such activity was conducted. The statement that a brokerage enterprise must employ at least two stockbrokers was also included in the law. In this way the possibility of the combining of brokerage firms through the mutual possession of shares, stock or investments in companies was eliminated.

Since there was some question with regard to those persons who may introduce securities into public sale, it was clearly written that this can only be a subject running a brokerage firm.

The obligation of the state treasury and the NBP [Polish National Bank] to announce the issuance of securities to the Securities Commission was also newly inserted.

After the amended law goes into effect, the suspension of a license for brokerage activity will be possible by a court ruling. However, the commission will be able to make a decision to withdraw such permission only following a court ruling on this matter.

Deputy Wieslaw Kaczmarek was elected deputy to make the report on the draft law "On Changes in the Law on the Public Sale of Securities and Trust Funds" during the Sejm meeting.



**Reduction of Gasoline Deliveries Noted**

92EP0040D Warsaw RZECZPOSPOLITA  
(ECONOMY AND LAW supplement) in Polish  
28-29 Sep 91 p II

[Unattributed article: "Restrictions on Deliveries to Poland: Gas, Crude, and Fuels"]

[Text] The Ministry of Foreign Economic Cooperation [MWGzZ] announces that the Council of Ministers, in a decree dated 24 September 1991 (DZIENNIK USTAW No. 85) established a temporary restriction on deliveries to Poland of gas, crude oil and fuels for low- and high-compression engines until 31 December 1992. The restrictions covered by the Council of Ministers decree will consist of the duty of obtaining licenses for delivery issued by the MWGzZ.

Requests for licenses to delivery goods, prepared in accordance with the decree of the ministry of foreign economic cooperation dated 31 December 1989, concerning the manner of dispensing contingents and action on matters related to licenses for the export and import in the commodities trade with foreign countries (DZIENNIK USTAW No. 1, 1990, item 8, No. 60, item 352) should be directed by mail to the MWGzZ, Warsaw, Three Crosses Square No. 3/5 or they should be submitted to the Chancellery of the Main Ministry of Economic Cooperation, room 41.

The following documents should be appended to the above-mentioned requests:

- A certified copy (xerox) of the actual document confirming that economic activity is being conducted which indicates the product scope of this activity (an extract from the appropriate trade register or another register emanating from the regulations controlling the given type of legal person or attestation of entry to the record book of economic activity).
- A contract with a foreign partner containing the amount, the price, payment terms and terms of delivery of the goods.
- An agreement with a domestic consignee if the Polish importer has listed the item with the intent of reselling it.
- An importer's declaration that the quality of imported crude oil products will be in accordance with Polish standards.
- An attestation that the imported oil products will possess a quality certificate recognized by international inspection firms.

The requests discussed above will be examined by the Interministerial Commission called by the ministry of economic cooperation with foreign countries. The commission's decisions will be sent by mail to the requester.

**Increased Investments by Foreign Firms**

92P20035A Duesseldorf *HANDELSBLATT* in German  
19 Sep 91 p 20

[ADN report: "The Presence of Foreign Firms Is Slowly Increasing"]

[Text] Bucharest, 18 Sep—On the basis of the number of joint ventures, Romania occupies a leading place among the formerly socialist states of Europe, including the USSR. With 5,626 firms, it has one-fifth of the total number of such ventures registered in these countries. However, the share in the capital is only 3.5 percent. Foreigners have invested \$245,000,000. More than 90 percent of all the joint companies in Romania have capital of less than \$50,000.

At the Romanian Development Agency, a special governmental institution established for the purpose of encouraging foreign investments, they are convinced that larger firms, too, will invest. Undersecretary of State Petre Szel, vice president of the agency, reports that, in recent months, a number of well-known Western firms agreed to participate in joint ventures in Romania. Germany is clearly in first place with a partnership in 862 companies. Next comes Italy (595), and then Syria (508), Turkey (505), and the United States (354). Also in capital investment, Germany is first on the list with \$27.2 million, while Italy (\$26.1 million) and the United States (\$24.2 million) are not far behind. Among the firms with more than \$1 million of capital investment, there are only three from Germany, of which Siemens AG, with its telecommunications joint venture, is the most important.

The majority of the joint companies are involved in trade and tourism. So far, only 808 of the companies set up are engaged in industrial activity. Up to now, large, internationally renowned firms have preferred to maintain only trade or cooperation relationships with Romanian partners. The most recent example is the German firm, Burmah Castrol, which, while it has invested several million German marks [DM] in Romania, for the time being, does not want to set up any joint enterprise. Petre Szel told ADN that some other large firms, including Mercedes-Benz, Schloemann Siemag, and MAN, have been engaged in exploratory talks. He hopes that the German firms will continue a tradition spanning more than 100 years, according to which Germany in all decisive phases of development was regarded as a leading partner in the technical and industrial progress of Romania.

Romania has the necessary laws on investment and promotion of foreign capital. What stops many firms is the bureaucratic squabbling, the underdeveloped banking system, the bad infrastructure, and the poor work discipline. Experts on the scene also advise all of those ready to take risks, who want to take advantage of the geographic position of Romania as a gateway to the Near East and a country bordering on the Danube, as well as the still very low cost of wages, from the outset, to

go with a majority interest in and one's own strict management of the enterprise.

**CP Cadres, Securitate Thugs Seen Behind Riots**

92BA0057A Hamburg *DIE ZEIT* (International edition)  
in German 11 Oct 91 p 4

[Article by Rudolf Herbert: "Revenge for False Promises; Former Communists and Securitate Thugs Fan Unrest in Romania"]

[Text] Bucharest—Several days after the fact you can still smell the tear gas in the air; pedestrians reach for their handkerchiefs and walk faster. Armored personnel carriers are parked in the courtyard of the Romanian TV building. The outer walls of the seat of the government are blackened with smoke; many windows are broken. The building is ringed with military vehicles. The machine guns are pointed at the sky; but anyone who during the night from 26 to 27 September heard the orders by the national defense high command, one of whose members is President Ion Iliescu, knows that the troops have been issued live ammunition. Could some breath be left in the dictatorship which had been given up for dead?

When last Friday thousands of miners and Bucharest demonstrators assembled outside the walls of the old Cotroceni royal residence and demanded Iliescu's resignation, the security forces fired rubber bullets and plastic fragmentation charges. No mention of this was made by the TV commentators. There were hardly any photographs either of this penultimate event of the riots, which lasted a total of three days and three nights. If you did not witness the clearing of University Square during the early morning hours of 28 September with your own eyes, you could hear about it on the BBC evening news. The miners took the flags with the circular cutout back home to the distant Schil Valley. Flying above Cotroceni Palace is that other tricolored flag, missing nothing but the old crest.

"Thank you for everything you have done during those days; for your attitude which bears witness to your high civic responsibility." Those were Ion Iliescu's words in June of last year to the miners who, armed with chains, axes and iron rods, had spilled the blood of hundreds of members of the opposition and students and then arrested them. Fifteen months later no one talks any more about a coup attempt by "fascist elements," which is said to have been averted by quick action on the part of the miners. Now they are wearing their dirty work clothes; they look hungry and show signs of lack of sleep. This time they are not here to support those in power; they demand the resignation of Prime Minister Petre Roman and his government.

During the night from Tuesday to Wednesday of last week, two trainloads of miners left the Schil Valley soft coal basin, several hundred kilometers distant from Bucharest. The first 3,000 to arrive at the Bucharest station where Ceaucescu's special trains had left from in

the old days, were met by peaceful police, armed only with rubber nightsticks. "We are fed up! Down with the smugglers! Iliescu and Roman into the mines!" they chant on the way to the center of the city. The people of Bucharest, who have not forgotten last year's terror, hardly dare to step on the sidewalks. "Why didn't you yell these things last June?" one of the more courageous wants to know. "That wasn't us; those were Securitate people dressed as miners," is his answer. They demand a dialogue with the head of government. When this is denied, they try to storm the seat of the government. Tear gas grenades explode; the shell casing of an explosive device kills a student who marched with the miners.

About that same time, the senate is hotly debating a government in exile for Transylvania which is said to be located in Budapest. On the agenda are draft laws on the operation of the Romanian intelligence service, on the pensions for the former management cadres and prohibition of communist parties. At the drop of a hat, the extreme right wing as well as the successor parties to the Romanian CP [Communist Party] yell "The fatherland is in danger!" This has its effects. Practically every Romanian firmly believes today that "foreign cliques" have their eye on Transylvania, which only in 1918 joined what was then the Kingdom of Romania. Ceaucescu was not the only one to attribute his fall from power to "interference by foreign powers"; former Securitate people and fired officials claim the same with some success. The big daily newspaper ATEVARUL pretends to know about ex-King Michael of Hohenzollern-Sigmaringen's secret intention of assuming power on the heels of these events.

In the evening, the union chief of the Schil Valley miners, Miron Cosma, declared that the miners would not leave Bucharest until Roman resigned. The list of his demands included a pay raise equal to the rate of inflation; tax-free credits for modernizing the mines; revoking the closing of profitless mines and improved social services. He claimed that Roman and Iliescu had the duty to monitor the miners' living and working conditions. But apparently they had no time for this though less than two weeks earlier, both the president and the head of government participated in the festivities on the occasion of the 119th anniversary of the death of a Transylvanian folk hero. This had been arranged by the nationalist Vatra Romaneasca and the Romania Mare Party, which by now demands government by the military.

The following day, the media reported three people killed and several dozen wounded. A few hours later Iliescu received a delegation from the Federation of Mining Unions, which was holding a meeting in Bucharest just then, and after that a delegation from the Schil Valley group, which is not a member of the Federation. The prime minister offered to resign; President Iliescu denies having given in to pressure from street bands.

The miners, now joined by several hundred citizens of Bucharest, could now have gone home. But this was the

point where the farce really seemed to start. They moved toward the parliament, chased the few guards away and entered the assembly chamber. One delegate pulled a crucifix from his pocket and screamed hysterically that he, a well-known author of patriotic hymns, was ready to die. Panic broke out. The miners demanded that parliament fire Iliescu; the delegates stated that this was beyond their authority. Shouts of "Down with Iliescu" reverberated through the sacred halls; the elected people's representatives joined in.

The miners' pay requests are not inappropriate in view of the rise in living costs, even though the miners are among the highest paid people in the country. In view of the galloping inflation, their protest gives voice to the discontent of millions of workers. Inasmuch as reforms do not translate into immediate affluence, many practice silent resistance. All of them, especially the upper management layer, have the former communists as their spokesmen. The latter accuse the government of dark misdeeds and corruption, without offering any proof thereof.

The scenario is simplicity itself: A few thousand miners, people with "healthy civil feelings," come to the capital; the army and the police pretend to be helpless. Within a short time, the government could thus be overthrown. Except for a few controversial scenes, the nation is allowed to witness all this on television. By the time the next report arrives from the scene of the action, those gentlemen have already taken over who know more than anyone else about dangers from beyond the border and who are full of patriotic-military feelings. The Schil Valley miners can be relied upon. Infiltrated by the Securitate after the 1977 strike, politically naive like most other people in the country, they can easily be deployed as a civilian shock troop for the secret service. Most of them probably think they are doing the state a favor. The resigning head of the government calls this a "communist coup by the grass roots."

Last Friday, after the demonstrators had slept in public parks, in trains or in the lobby of the Intercontinental Hotel, some of them got tired and wanted to go home. But thousands of others, many among them who had only arrived the day before, again made their way clear across the city to Cotroceni. Once again, the battle cry was "Down with Iliescu," joined in by delegations of Bucharest trade unions. After a first round of negotiations with the chairmen of the parliamentary opposition parties about options for a new cabinet, the usually smiling president received a miners' delegation. They jointly signed a declaration, stipulating Petre Roman's resignation and Ion Iliescu's support for social improvements.

One of the union leaders later admitted: "We don't know to what extent we have been taken advantage of so as to create pressure for discontinuing the reforms." How many other besides him might be asking themselves the same question? Another tells that they had been offered firearms. What does the new chief of intelligence services

know about this? The next morning the miners disappeared, and with them the representatives of the World Bank, while the European Community is putting its negotiations with Romania on ice. The money exchange rate was to have been standardized so as to achieve convertibility of the country's currency with international support.

Nightsticks, blackmail, anarchy, and confusion have won out, thanks to the mafia of the Securitate, the old

nomenclatura, and new opportunists. The country is isolated and drowning in apathy. The West turns away in horror. The perfidious coup appears to have succeeded. Romania has declared itself to be the Fourth World. The president has been saved. Soon he will smile again. Unobserved by the public, someone by the name of Spanculescu participates in the debates about the new government—a proxy revolutionary in Timisoara, minister of the economy, minister of defense, minister of industry.... The newspapers have their topics.

### Slovene Regrets Leaving Federal Position

92BA0065D Belgrade BORBA in Serbo-Croatian  
10 Oct 91 p 6

[Article by M. Dapcevic: "We Are Victims of the Politicians"—first paragraph is BORBA introduction]

[Text] Dagmar Suster is leaving his federal position at the PKJ [Economic Chamber of Yugoslavia] with regret; obeying Slovenia's decision to leave Yugoslavia, one of the last federal officials from Slovenia will leave Belgrade this month.

Belgrade—"When I came to the position of president of the PKJ 10 months ago, I was aware of the problems associated with that position, and all the misfortunes that are happening to us and that threaten us; but I believed in Yugoslavia, and in the chances for its survival, at least as an economic community, which, unfortunately, was not realistic," stated Dagmar Suster at a press conference, citing as the main reason for his leaving the position of PKJ president the fact that as a Slovene, he had to obey the decisions of the Slovene Assembly on secession from Yugoslavia.

Suster predicted that unhappy days are yet to come for Yugoslavia, and illustrated this with the decline in production from \$60 billion in 1989 to \$45 billion, which is what it will be this year, and \$30 billion next year. "We have thrown more money out the window than any other country in the world, and it will be hard for our politicians to explain to the people and to history why they have done so," Suster tried to explain briefly.

As the "last of the Mohicans" from Slovenia in a federal position, Suster also considered the prospects for Yugoslavia yesterday, stressing that he "believes that there are possibilities for establishing ties for a unified economic community, simply because the economy has objective material interests in this. The condition is that there at least be a change in politics and politicians, and that the transformation of ownership, which is now strongly dominated by politicians, be accelerated."

"I never supported any position in my career as president that would have served political games," Suster clarified further, and thus answered a question that has been frequently raised in public about his attitude toward the government of Ante Markovic's and the latter's economic project. "If I criticized the government," Suster specified, "I did so only because I thought that I was thoroughly correct."

At any rate, Dagmar Suster came to head the PKJ at the end of December 1990 from the position of vice president of this economic association. In the meantime, he has become a figure of interest to the media, not just because he insisted on profound changes that have to be undergone in the organization of the Chamber and in its attitude toward the state, but also because of his persistent rejection of the current economic policy of Ante

Markovic's government, which has caused various comments and speculations. In fact, it was said that he did so because he wanted to sit in the prime minister's armchair, which Suster lightly denied, without, however, retreating even a single step from his criticism of the government's policy.

In announcing his departure from Belgrade, Suster emphasized that he had not had any problems in this city, and that he was taking precious memories away from it, and in response to a comment that he was perhaps leaving in response to an imperative demand from the Slovene Economic Chamber, he added that "there have not been any such demands; rather, I have to act in accordance with the conditions that exist." It is not known how his statement at the press conference in connection with the people who left before him will be received, but it only indicates the consistency of a man who has not left a federal office of his own will: "In contrast to some people before me, I am terminating my employment with the Chamber this month," Suster said, clearly making it known that he would not be speculating with his federal pay. "I will also leave the apartment in Belgrade, and for the next three months, as permitted by Slovene law, I will be on the payroll of the Slovene Economic Chamber. I believe that during that time I will be successful in returning to Slovene business."

Who will hold the office of the Yugoslav economy's truncated association after Suster, and who will be Suster's successor in the position of PKJ president? Suster said that this was not within his competence, but that two days ago he had initiated having certain decisions made about this through the organ of the PKJ. In any case, the petition for the dismissal of D. Suster will reach the meeting of the presidents of all the republic and provincial chambers on 15 October; the PKJ Executive Committee will be informed of it the next day, and the Chamber Assembly, on 31 October.

[Box, p 6]

### There Were Schemes To Replace Markovic....

Suster's leaving his federal position in the way that he did yesterday was not appropriate for asking unpleasant questions. Nevertheless, after the press conference, BORBA asked Suster to "admit" whether at one time, a couple of months ago, there really were discussions in the state leadership about how he could occupy Prime Minister Markovic's position, or whether these were only unverified newspaper speculations.

"There were discussions about removing Federal Prime Minister Markovic from that position, and I was informed of this," Suster admitted, asserting that the idea did not appear in the talk between Tudjman and Milosevic in Karadjordjevo, but much earlier. "The idea was that some Slovene could take the office of prime minister, but it fell through as a reaction to the agreement between Izetbegovic and Gligorov in Split. You

know, after that what suited all the the republic leaders best was a 'half-dead horse.' That is why Markovic remained in his position."

### Former JNA Analyst on Croatia's Need To Fight

92BA0081B Zagreb GLOBUS in Serbo-Croatian

20 Sep 91 p 13

[Article by Teodor Gersak, GLOBUS military commentator: "Croatia Has To Wage War!"]

[Text] Having realized that he could not impose a unitary Serboslovakia, Milosevic's team decided, so as to be able to extort changes of internal borders, to prevent at any price the preservation of the Yugoslav state in the form of a confederation or alliance of sovereign states and to establish some kind of Balkan Serboslovak state with the motto "All Serbs must live in one state."

In thinking of this new Balkan creation from the remnants of Yugoslavia, after the Catholic parts were driven out of the former Yugoslavia, the policy of Serbian expansionism has been expressly insisting that its new state would be the true heir to the former Yugoslavia.

The expulsion of Slovenia—as a factor that distinctly got in the way of the policy of Serbian expansionism—from Yugoslavia was the first objective along the way to achievement of that policy. This was followed by war to take possession of the famous line in Croatia mentioned in the Memorandum, and then the ethnic purge with the help of terrorism and appropriation of eastern Slavonia and the regions which have come to call themselves the SAO [Serbian Autonomous Oblast] Kninska Krajina, and after the political, economic, social, and military defeat of Croatia the present Croatian government would be brought down, and the remnants of the Croatian Republic would be forced to secede, and to do so in such a way that all the blame for the disintegration of Yugoslavia would be heaped on the separatist western republics.

That design for establishment of an expanded Serbia, which has long been passed off under the name of preservation of Yugoslavia and the threat to the Serbian people in Croatia, was composed from the extremist and the less radical expansionist variant of Serbo-Montenegrin imperialist policy. The important thing about both versions is that the western border of that new expanded Serbian state would run along the Memorandum line.

That is why, even after the unsuccessful military intervention in Slovenia, the objective of that imperialist policy is as soon as possible, even at the price of not honoring the agreement to suspend the conflict, to take military possession, under the excuse of separating the belligerents, of the western border of Serboslovakia along the line of the broader region of Karlobag, Ogulin, Hrvatska Kostajnica, Novska, Pakrac, Djurdjevac, and from there to the Hungarian border. It is true that that

line does in part deviate from the well-known Memorandum line, but it is a border line which runs in such a way that that new Balkan creation would gain in its border zone important orographic structures (heights), which is extremely important from the strategic viewpoint.

The maximum variant would encompass a large economic potential, but would bring unconquerable ethnic difficulties. Although that variant has extremely little prospect of political success, there is an interest in it not only on the part of Serbia, but above all on the part of the Army, which has begun to realize that after the reckless aggression against Croatia and the savage devastation, it will soon have to withdraw even from that republic, and will have to secure for itself opportunities to survive as a social entity on the territory of the remainder of Yugoslavia. This is indicated by the fact that the Army, following the forcible ethnic purge of the Croatian territories that are supposed to go to the future Balkan state, is establishing some kind of strategic buffer zone in the broadly conceived Memorandum zone.

That objective of the Army is proven by recent military operations in which the Bjelovar and Banja Luka Corps, because battles for Osijek, Vukovar, and Vinkovci have not been going well for the Serbian side, have been trying to cut off Slavonia from Croatia, even after the cease-fire agreement was signed. The assessments of the top military leadership are probably based on holding that territory to prevent spontaneous disintegration of the Army and to facilitate its transformation into a purely Serbian army.

The military man's logic is simple: Let us capture a broader zone, let us cause unrest, then let us assert that we are preventing "ethnic conflicts," and then let the politicians argue over the final line of the border, for 50 years if they like.

But the necessity remains of persuading or compelling the Albanians, Macedonians, the Muslim and Croatian nationalities in Bosnia-Herzegovina [B-H] to live in a common state in that "truncated Yugoslavia," that is, in an expanded Serbia. Without annexation of at least a portion of the territory of Bosnia-Herzegovina, it will not be possible to link together the regions where the Serbs live. The ethnic concentration and 30-percent share of the Serbian population in Bosnia-Herzegovina is in fact more favorable than in Croatia, but the first question that is asked here is how to win over the Muslim and Croatian segments of the population and under what conditions they are ready to remain in a truncated Yugoslavia.

The Serbs are already offering the Muslims an agreement on the natural historical alliance of Serbs and Muslims, there is already talk about the possibility of the Muslims in the Sanjak, in central Bosnia, and in Cazin Krajina getting some kind of cultural autonomy.

But there is too great a distrust of the Serbian policy of expansion, so that the Croatian and Muslim nationalities

in Bosnia-Herzegovina are insisting exclusively on that republic's sovereignty. The rebellion of the Serbian people under the pretext, just as in Croatia, of being "threatened," in B-H is too dangerous to the survival of the Serbian regime under present conditions. The Serbs know quite well that the people from the Dinarids are not peaceful like those from the Pannonian Plain and that conflicts could ensue of such size that the European Community would probably have to intervene even militarily. But the Serbian expansionists are not going to give up their zone of interest so easily, which is why they will most probably attempt to achieve their goal in stages, through various Balkan tricks and ruses.

In such a new state, following the failure of all attempts by the majority Serbian people to assume tutelage over the Muslims, Albanians, and Macedonians, as well as the remnants of the Croats, they will probably try to form a creation on the European model in which borders between the nationalities would be only spiritual categories, and community life would be based on guarantees of the rights of individuals. The people in the Balkans truly are not yet ready for anything like that.

#### **The Softer Version and the Southward Spread of Aggression**

In the milder version of the expansion of Serbian borders—aside from amputation of Croatian territory to the Memorandum line—an attempt would probably be made with a referendum of the Bosnia-Herzegovina Serbs to hold the areas of eastern Bosnia-Herzegovina, the Bosnian section of the Sava valley, and the Krajina, so as to make a link-up with Kninska Krajina, which in the meantime would wage war to gain access to the sea at any price. In that variant, central Dalmatia and a part of Bosnia would remain outside the design of expanded Serbia. It is likely that after capture of the purely Serbian eastern section of Herzegovina, Serbia intends to annex the entire Dubrovnik-Neretva strip of seacoast together with the southern Dalmatian islands. This has to do with a thirst to expand over the region of what once was the Dubrovnik Republic, whose inhabitants have long been said by the Belgrade man in the street to have been Catholic Serbs.

In this area, the appetites of an "expanded Montenegro" are actually more pronounced, and it is already taking pains to explain that that territory once belonged to the Zeta Banovina. This avaricious Balkan dwarf has even been trying through Milosevic to take a piece of the territory of Kosovo. In those plans and aspirations for an expanded Montenegro, even B-H would be left without its present outlet to the sea.

The policy of Serbian expansionism in that variant renounces at least temporarily appropriation of the Muslim section of Bosnia and particularly the permanent annexation of the Croats in Herzegovina. Actually, it wants to get rid of them at any price, because this is the ethnic group which the Serbs truly fear most in an expanded Serbia.

It is interesting in all of this that it continues to be quiet on the southern front. The question is how the Serbian expansionists intend to subdue Macedonia, that is, what is referred to as southern Serbia, and how they will deal with Albania in the future. The present lull could be interpreted as a consequence of the exhausting conflicts in Croatia and as restraint because of European interference. It is also unusual that even Serbian propaganda was quiet right up to the referendum. They are probably trying to avoid burdening themselves with Bulgaria as well, which recently announced that it intends to take an active part in resolving the Yugoslav dispute, and in that connection it was probably thinking of disputes that date back to the Balkan Wars. We can interpret this apparent peace in two ways: either as a sign that they will open the southern front as soon as they consolidate their positions on Croatian and Bosnian soil, or that they have renounced southern Serbia. To be sure, this is possible after the successful referendum in Macedonia, but it is still not very likely.

The present truce is only an intermission because of European conditions, and it will be used to consolidate the Army and transform it into a Serbian army, and afterward a Balkan front will be opened to embrace Bulgaria, Macedonia, and Albania. All of that will, of course, be carried out once again on the pretext that Serbia is threatened and even that Bulgaria and Albania have attacked it. The former because it wants to appropriate a portion of Macedonia (read: southern Serbia), and the latter to annex the Albanian brothers in Kosovo.

Precisely for the sake of protection against Serbian expansionism and because Macedonia is too weak as an independent state, serious thought is already being given to a Bulgarian-Macedonian-Albanian confederation or to the so-called Old Balkan confederation, that would extend from the Black Sea to the Adriatic. That linkage is extremely interesting from the standpoint of Western military interests as well.

#### **The Peace Conference Is Not Yielding Solutions for a Permanent Peace**

Europe is looking on fearfully as dozens of lives are extinguished every day in an area close to its heart, hundreds of people are wounded, and thousands are left without their homes. It does not understand how it is possible on the threshold of the 21st century that entire villages are being set fire to in the heart of Europe, that their inhabitants are being shot or having their throats cut, and their property is being plundered or sold off.

European politics has not yet arrived at a collective realization that a monster like Hitler or Saddam is on the move, a monster ready for anything, only in order to achieve its sick objectives and remain in power, and that is why it signs documents and conducts negotiations, while at the same time behind your back he is demolishing, destroying, and killing. European diplomacy simply cannot conceive that anyone could trample so

easily on all the standards of civilization, spit upon his own signature on an agreement, and coolly continue with slaughter and devastation.

Europe does not understand that expansionist Serbian nationalism periodically, every few decades, has bloody menstrual outpourings of warfare that can be halted only by force. Anything else is a voice crying in the desert. Yesterday it was bloody Kosovo, today it is bloody Croatia and Slovenia, tomorrow bloody Bosnia-Herzegovina, the day after tomorrow all of the Balkans will be bloody, and then Europe will be bloody. Unless this bloody wheel is stopped now in Croatia, a southern front will soon be opened as well. And we will have a third Balkan war, which will destroy the entire balance in Europe which is only now being brought about.

Europe must finally realize that the set of peace instruments offered, the temporary truce, the threats of economic and financial sanctions, will not halt expansionist Serbian nationalism. It will not be ended until Serbia is placed under European tutelage, in a quarantine or prison, until the wings of the Serbian military are clipped with a firm international agreement and its military power limited. Those who have committed war crimes, and especially those who have brought about or carried out entire massacres of their own population and destroyed everything in front of them and on both sides—and the numbers are not small—should be brought before an international tribunal where they will answer for the war crimes they have committed against humanity. Otherwise, permanent peace is not possible either in the Balkans or in Europe.

At the same time, Croatia must finally realize that the first problem of Croatian freedom is the question of whether the entire population is ready to defend itself even at the price of war and blood? The second problem is that Croatian policy has gone too long without clearly and decidedly defining what it wants, and the problem of confusion in organizing Croatian defense is arising as a consequence of that.

Both problems are more or less being concealed and mitigated on the pretext that arms are lacking, but that is not an accurate justification. The problem of Croatian defense is the question of the readiness of the population and the question of organization, and the lack of weapons, especially certain combat systems, is a consequence of those two cases of indecision, in that Croatia let such a long time pass without deciding to take the storage facilities of the Yugo-army as the Slovenes did. That problem could be solved in a single night with a high level of resolve and organization.

Those who have been framing Croatia's defense policy up to now seem not to have had a clear idea at all about the objectives they wanted to achieve, and in particular they have not worked out a model of how to resist in all domains of the life of society. Top-level Croatian politics certainly has not wanted to understand that the goals of contemporary warfare are no longer—as people in our

country still continue to think even today—destruction of personnel and destruction of everything one after the other, but with minimum casualties to achieve complete disorganization of the political, military, and economic organization of an adversary. The trends of the physical brutality and violence of the past, which have accompanied every war, are more and more being pushed aside, and entirely new modes of operation are moving into the foreground.

The attack on Slovenia, when correspondents from the largest media in the world were in Zagreb and Ljubljana and when the eyes of the entire world were directed toward what was happening and what would happen, was an ideal occasion for application of the new methods. If at that time the reaction had been as it was in Slovenia and if in sign of protest all of Croatia had risen up, and if measures had been initiated, and if a beginning had been made in taking the steps of the strategy for holding space that had been prepared even in Croatia, if the storage facilities had been captured and barricades set up, there would have been many fewer casualties, much less damage, fear, refugees, and so on, than we have now. The Yugo-army would have experienced a moral collapse and would have begun to unravel just as it did in Slovenia, and the result would have been its utter polarization. It is truly tragic to see how the top-level Croatian politicians think that a military conflict with that Army is the only strategy.

The present policy of the Yugo-army could be completely neutralized with up-to-date methods of operation. It is incredible that this opportunity was missed at moments when certain military commanders of Croatian nationality and the senior officials of certain storage facilities with hundreds of tons of weapons were literally begging to be attacked at least symbolically so that they could turn over the entire military infrastructure and supplies. Croatia would then have acquired at least 30 or even 40 percent of the military equipment and armament of the JNA [Yugoslav People's Army], would have had in its hands several thousand antitank and anti-aircraft missiles, and today it would have essentially different positions both on the battlefield and for future negotiations concerning disassociation.

The way it is now, everything is much more difficult, because the militant core of the top military leadership has consolidated the Army and placed in positions of leadership people devoted to the policy of an expanded Serbia. If a broader armed conflict had come about at that time, it would have been halted under the pressure of world public opinion, and the crisis would very quickly have been internationalized even on Brioni.

The military junta and Adzic-Mamula putchists—who are blinding the world public and domestic public with the assertion that they are creating a buffer zone, when actually they are broadening an expanded Serbia to the Memorandum line and taking strategically important points in order to link up Serbian enclaves in Croatia for a future expanded Serbia—would simply fall. War at



that time would not have been necessary, because everything would have played out at the level of a very limited physical conflict. The strategic part of the war would have been conducted at the intellectual level—to win over world public opinion and the diplomats.

The Croatian political elite has brought about a catastrophe which will be felt for decades because of its assessments up to this point, its indecision, and its utter failure to foresee what the Army would do and how far Milosevic's command staff would go.

The dictator will certainly take advantage of the peace talks from a position of strength in weaponry and military intimidation and will dictate the conditions for the truce in a Yugoslavia which is falling apart.

Europe will not give priority to the issue of the secession of Slovenia and Croatia, but only to working out the Yugoslav case as an entire package. And a package agreement carries with it the danger that the positions at the moment and the interests of the largest republic, and in particular its military threat and force, will be given too much importance, and that all this can be turned around into a compromise whereby Milosevic would get Bosnia and a portion of Croatian territory, which would be the price paid for peace in Europe, and in return he would not open the southern front as well. Europe might possibly force him to give up Kosovo on that account, and it would become part of a new Balkan federation of Bulgaria, Macedonia, and Albania.

In order to achieve that, the negotiations will be intentionally stalled. What Croatia needs is to react militarily right now, while the conflict is still at the level of low intensity, and not be taken in by false truces. If the opportunity is let slip once again, then it will have no other choice but to organize itself for protracted guerrilla resistance involving the entire population.

The Army's operational interest is to occupy the Memorandum line as soon as possible as a strategic buffer zone 20-30 km deep, and in the region of Slavonia and Dalmatia to take important strategic, economic, and transportation facilities. In that way, it would succeed in maintaining the balance between the artificially linked Serbian enclaves and continue the ethnic purge in order to establish an ethnically pure region.

Those are the operational foundations for the cities which the Army will attempt to take. It is thus attacking Osijek and other cities in Slavonia, Baranja, and so on, and that is why the bridge in Baranja was demolished. In its operational undertakings, it is not aiming at complete destruction of the cities, but at exhaustion, which is why it is attempting to isolate them, and with uninterrupted mortar attacks to get as large a portion of the Croatian population to flee as possible.

Strategic balance at the level of equivalent combat systems has to be achieved as soon as possible on the Croatian battlefield. The Croatian Armed Forces must be furnished antiarmor and antiaircraft missiles as soon as possible. Only after this equivalent value in combat capabilities is established will the question arise of whether the Yugo-army will be able to remain so stretched out depthwise in Croatian territory and the territory of Bosnia-Herzegovina, whether it will still be able in the future to move armor units so unrestrictedly, whether its airplanes will still be able to fly at all at altitudes less than 3,000 meters? And the global question will also arise: Will it still be able to remain at all on non-Serbian territory, lacking support from a broader social infrastructure? If so, then it will have to shut itself up in garrisons, as in Osijek and Vukovar.

It probably will have no other choice than to attempt to work things out generally in such a way as to carry out a strategic counterstrike—taking 1945 as a model—using the entire Yugo-army, but that is not very likely, because even the Serbian population is not ready to fight beyond the Drina, especially not Serbian young people.

Another possibility is withdrawal as soon as possible to the Memorandum buffer zone and encampment in places where the Serbian population is in the majority, thus attempting to consolidate its ranks against the spontaneous disintegration and social collapse, and thus accomplish the transformation into a Serbian army. In that case, Serbian paramilitary units would probably be incorporated into its regular formation and in that way it would achieve protection in the broader area where it is located. But even in the case of its relying on the SAO Krajina, SAO Slavonia, and SAO in eastern Herzegovina, it will not be able to survive long, because those regions will nevertheless be under an economic blockade. Precisely for that reason, the Yugo-army is nevertheless ready for a momentary, but nevertheless false, truce.

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